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**Norcen**  
Energy Resources Limited

## CORPORATE PROFILE

Norcen is a major Canadian oil and gas company, headquartered in Calgary, Alberta. Norcen ranks as one of Canada's top producers of both oil and gas. The Company's primary areas of operations are Western Canada, the Gulf of Mexico, Venezuela and Argentina.

Norcen's wholly-owned subsidiary, Superior Propane Inc., with a distribution network across Canada and ten states in the U.S. midwest, ranks as the largest retail marketer of propane in Canada and the fourth largest in North America.

At December 31, 1994, Norcen employed 3,294 people of which 1,058 were employed in oil and gas, and 2,236 in propane marketing.

The Company's common shares trade on the Toronto and Montreal stock exchanges under the symbol NCN.

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## ABBREVIATIONS

bbl	barrel
b/d	barrel per day
mbbls	thousands of barrels
mb/d	thousands of barrels per day
mmbbls	millions of barrels
mcf	thousand cubic feet
mcf/d	thousands of cubic feet per day
mmcf	millions of cubic feet
mmcf/d	millions of cubic feet per day
bcf	billions of cubic feet
boe	barrel of oil equivalent*
mcfe	thousand cubic feet of gas equivalent*
NGL	natural gas liquids

\* Conversion ratio of 1 barrel = 10 mcf

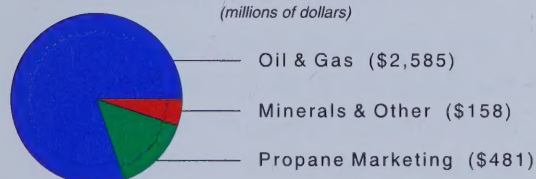
# SELECTED COMPARATIVE DATA

	1994	1993
<b>FINANCIAL</b> (millions of dollars except per share amounts)		
SALES AND OTHER REVENUES	\$ 1,315	\$ 1,157
NET EARNINGS (LOSS)	\$ (114)	\$ 24
Per common share		
- basic and fully diluted	\$ (1.39)	\$ 0.29
CASH FLOW	\$ 395	\$ 368
Per common share		
- basic	\$ 4.77	\$ 4.63
- fully diluted	\$ 4.15	\$ 4.01
CAPITAL EXPENDITURES	\$ 382	\$ 304
TOTAL DEBT (INCLUDING DEBENTURES)	\$ 1,532	\$ 1,493
SHAREHOLDERS' EQUITY	\$ 1,242	\$ 1,403

## NET OPERATING ASSETS

(as at December 31, 1994)

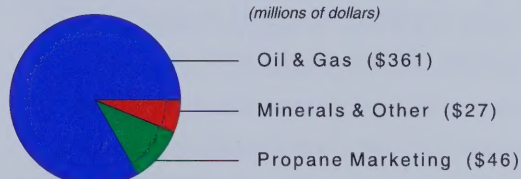
(millions of dollars)



## 1994 OPERATING CASH FLOW

(Before Interest Expense & Investment Income)

(millions of dollars)



## OPERATING

### PRODUCTION

Oil (mb/d)	59.3	50.7
Natural gas liquids (mb/d)	9.4	8.8
Natural gas (mmcf/d)	554	481

### AVERAGE PRICES RECEIVED

Oil (per bbl)	\$ 17.66	\$ 17.58
Natural gas liquids (per bbl)	\$ 14.35	\$ 15.37
Natural gas (per mcf)	\$ 1.85	\$ 1.74

### WELLS DRILLED (GROSS)

Exploration	83	71
Development	379	406
	<u>462</u>	<u>477</u>
Success Ratio	84%	85%

### PROVED RESERVES

Oil and gas liquids (mmbbls)	181	231
Natural gas (bcf)	1,977	2,344

SALES OF PROPANE (millions of litres)	1,869	1,559
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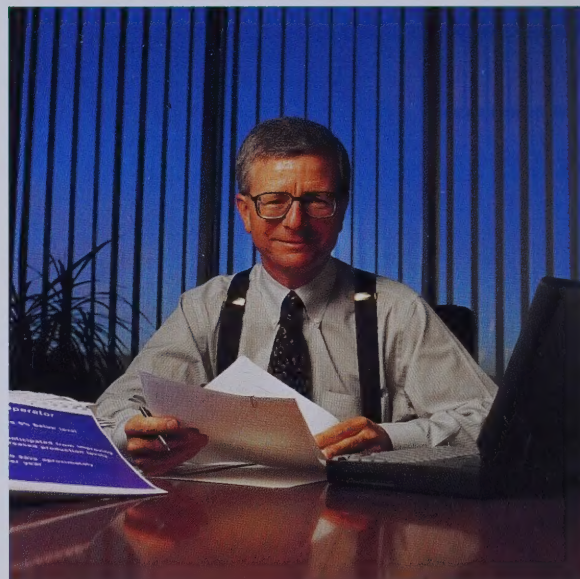
Nineteen ninety-four was a watershed year for Norcen, as new senior management, new operating concepts and a sharper business focus spawned a new corporate culture. The process began with the appointment of Grant D. Billing as President and Chief Executive Officer of the Company, effective September 1, 1994. Over the remaining four months of the year, the following major initiatives were implemented:

a) *The introduction of a sharper operating focus.*

Following an in-depth examination of its worldwide oil and gas assets, the Company identified 12 core areas where Norcen enjoys a competitive advantage. Nine of these areas are located in Western Canada; the other three are located in the Gulf of Mexico, Venezuela and Argentina. Norcen's propane marketing operation also was designated a core business. Norcen has high quality assets in these areas and the employee skills to add significant future value. All of the Company's remaining oil and gas assets, its mineral resource assets and portfolio of financial investments have been classified as non-core and will be sold over the next few years.

b) *The establishment of multi-disciplinary teams.*

With the emphasis on improving value creation and profitability, multi-disciplinary teams have been set up to maximize the value of each core area. Additional teams have been assigned responsibilities for the management of non-core assets; an ongoing acquisitions and dispositions program; and a continued exposure to new venture exploration. The new venture exploration team will focus on higher risk/higher reward opportunities close to existing core areas and will have a program of up to 10 per cent of the Oil and Gas capital budget.



Grant D. Billing, President and Chief Executive Officer

c) *A flatter organizational structure.*

The introduction of the core area team concept removed traditional departmental barriers, significantly reduced the reporting hierarchy, and reduced the extent of work on non-core activities. As a result, the Company was able to reduce the head office employee count by about 20 per cent, including many line managers and supervisors. Further reductions are anticipated in the first quarter of 1995 in the accounting and administrative support areas.

d) *Simplification of our business.*

A concerted effort is underway to review all of our existing activities and processes to ensure we have a simple and understandable approach in how we conduct our business affairs. This review has shaped many of our activities to date, and will continue to impact how we do business, as we continue an emphasis on process review. This review has also challenged the value added by many of our traditional spending patterns, and we are starting to see meaningful cost reductions.

e) *Buy-out of minority interests in subsidiaries.*

During the fourth quarter, Norcen acquired all of the common and preferred shares of North Canadian Oils Limited which it did not already own. The process of merging NCO into Norcen is now underway. Early in 1995, Norcen offered to purchase the minority equity interests in 66 per cent owned Prairie Oil Royalties Company, Ltd. at a price of \$15 per Prairie Oil common share. Completion of the merging of NCO and success with the proposed Prairie Oil acquisition will result in a much simpler business for Norcen, with enhanced operating efficiencies and reduced administrative costs.

f) *Performance-based compensation program.*

A comprehensive review of Norcen's compensation program was undertaken in late 1994, and will result in the introduction of a new performance-based program in early 1995. The new program will be based on ensuring all employees are treated equitably, with salary and benefits that are competitive in our industry, and short and long term incentives that are linked to employee performance and corporate performance as measured by return on equity.

## OBJECTIVES AND STRATEGIES

Norcen's sharply focused strategies will be directed towards improving profitability and adding value for shareholders. A prime objective will be to become a top quartile industry performer, in terms of return on equity. In addition, the Company will aim to align its debt, over time, to less than two times cash flow. This will be accomplished from a blend of cash flow growth and debt reduction. In 1995, the Company plans on realizing between \$200 and \$300 million from sales of non-core assets which will be applied principally to debt reduction.

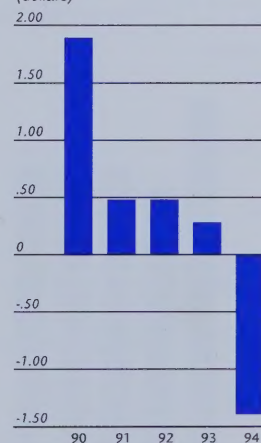
Key strategies include:

- Capitalizing on the Company's strong land position by maximizing the value of core properties, particularly in Western Canada and in the shallow waters of the Gulf of Mexico.
- Utilizing leading edge technology and maintaining a high level of technical expertise to enhance success.
- Upgrading the Company's asset base through property rationalization activity.
- Maintaining an exposure to new venture high risk/high reward exploration.
- Working hard to become a top performer in terms of low cost operating achievements, including lifting costs, and finding and development costs.
- Capitalizing on Norcen's significant marketing expertise to maximize oil and gas netbacks.
- Capitalizing on Norcen's dominant propane marketing position in Canada to seek out new business and cost reduction opportunities, particularly in the expanding alternative fuels market across North America.

## FINANCIAL RESULTS

Cash flow in 1994 amounted to \$395 million, up seven per cent from \$368 million in 1993, mainly reflecting production gains from both oil and gas. Sales and other revenues, at \$1,315 million, were up 14 per cent from the previous year. Netbacks, after general and administrative expenses, averaged \$8.78/bbl from crude oil production and \$0.90/mcfe from gas and gas liquids production, compared to \$8.28/bbl and \$0.89/mcfe in 1993.

NET EARNINGS  
PER COMMON SHARE  
(dollars)



A net loss for the year of \$114 million, which compared to a net earnings of \$24 million in 1993, included significant provisions. Net earnings, excluding provisions, were \$23 million in 1994 and \$29 million in 1993. A comprehensive review of Norcen's assets, to reflect the change in business strategy, resulted in net provisions in 1994, before income taxes and minority interest, of \$192 million, with the following major components:

- A \$226 million reduction in value of oil and gas assets for our international operations to reflect lower realizeable values for non-core areas, and the sale of our U.S. onshore assets as we focus on our Gulf of Mexico properties.
- A \$46 million provision for corporate restructuring, to reflect employee downsizing programs and surplus office lease commitments.
- An \$83 million gain on the sale of our industrial gas pipeline system, cogeneration power investments, and the Polaris Mine net profits interest.

Capital expenditures in 1994, excluding acquisitions, totalled \$382 million, up from \$304 million in 1993. Of the \$348 million spent on oil and gas activities in 1994, the major portion, approximately 66 per cent, was incurred in Western Canada.

During the year, the Company was extremely active in both acquiring and disposing of assets. In addition to completing the NCO acquisition, Norcen spent \$100 million purchasing other oil and gas assets, including additional producing properties in the Gulf of Mexico and in Argentina.

Asset dispositions in the year included the sale of substantially all of the Company's cogeneration business, the Polaris Mine net profits interest, the industrial gas system, and a significant portion of the financial investment portfolio. Combined with oil and gas property dispositions of \$171 million, total asset sales in 1994 generated net proceeds of \$497 million, a large part of which was applied towards the acquisition of the NCO minority interests.

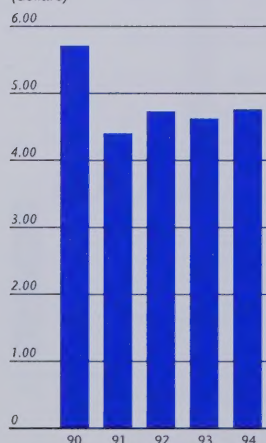
Total debt plus convertible debentures was \$1,532 million at year end 1994, which compared to \$1,493 million in 1993.

## OPERATING REVIEW

Despite the disposition of oil and gas properties in 1994, production of both oil and gas increased from previous year levels. Total production of oil and gas liquids in 1994 averaged 68,700 b/d and natural gas production averaged 554 mmcf/d, both up 15 per cent from a year earlier. The increase in gas production was mainly due to the full year effects of the NCO acquisition, which was consolidated effective April 1, 1993, as well as the acquisition of producing properties in the Gulf of Mexico at the close of 1993. The rise in crude oil production reflected gains in Canada, the United States, and new production from Venezuela.

Proved reserves of oil and gas liquids at year end totalled 181.0 mmbbls, down 22 per cent, and proved gas reserves at 1,977 bcf, were down 16 per cent. Negative revisions, to more accurately reflect development uncertainties associated with some of Norcen's reserves, plus the questionable, long term economic viability of the Company's Russian operations were major factors contributing to the declines. In addition, reserves added from exploration activity in the year fell far short of replacing reserves produced.

CASH FLOW  
PER COMMON SHARE  
(dollars)



## OUTLOOK

While the latter part of 1994 was characterized by a fair measure of stability in crude oil prices, the outlook is far from certain. The future level of OPEC production, particularly as it may react to

the eventual return of Iraqi production to world markets remains a major uncertainty. Partly offsetting this concern is the gradual strengthening in the economies of major industrial countries.

The outlook for North American gas prices is also far from predictable, particularly in Western Canada, where limitations on export pipeline capacity has resulted in a return to gas-on-gas competition and a decline in

spot market prices to uneconomic levels.

Anticipating these industry problems, Norcen sheltered much of its Canadian gas production from this weak-priced market by building a portfolio of fixed price contracts ahead of the market decline.

The key feature of Norcen's spending plans in 1995 will be aggressive exploitation of core area opportunities for early production and fast cash flow. The 1995 capital program will be funded by cash flow from operations and is expected to be approximately \$400 million with \$375 million allocated to oil and gas activities and \$25 million to propane marketing operations.

## CORPORATE

In May, 1994, after 20 years of service with Norcen and its predecessor companies, Barry D. Cochrane retired from Norcen. Following Grant D. Billing's appointment as Norcen's new President and Chief Executive Officer, effective September 1, 1994, a number of officers left the Company as part

of the reorganization. The Company appreciates the valuable years of service and significant contributions given to Norcen by these departing officers.

After several years on Norcen's Board of Directors, including a number of years as Chairman, Paul M. Marshall did not stand for re-election at the 1994 Annual Meeting. At the Annual Meeting to be held on May 5, 1995, also after many years of service to Norcen, Messrs. Robert Després and John R. Yarnell will not be standing for re-election as directors. The Company gratefully acknowledges the wise counsel and long and dedicated service of each of these directors.

At the 1995 Annual Meeting, the Company will be proposing to maintain the size of the Board at its currently reduced level of 13.

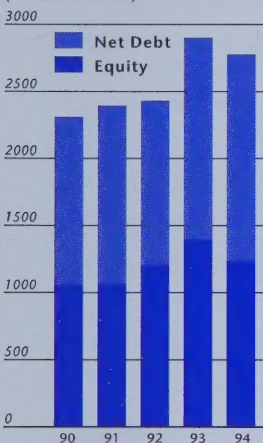
Norcen is also highly appreciative of the significant contribution of its employees over the past year. Senior management and the Board are extremely aware of the high anxiety caused to many employees as the result of the ongoing corporate restructuring and every effort has been made to ease that burden by speeding up the process. The recognition by the employees of the need for significant change, and their dedication to the changes necessary for Norcen's success is unprecedented. Many of the difficult decisions are now behind us, and the Company is looking forward to a period of enhanced shareholder value and growing corporate success.

On behalf of the Board



Grant D. Billing  
President and Chief Executive Officer  
February 16, 1995

CAPITALIZATION  
(millions of dollars)



A number of major initiatives impacted on Norcen's oil and gas operations during the latter part of 1994. Key among these was the introduction of a sharper operating focus, directed towards more aggressive exploitation of the Company's high potential properties. Target locations in Western Canada were grouped into nine core areas. In addition, the Gulf of Mexico, Venezuela, and Argentina were identified as core areas. Norcen's remaining oil and gas properties were designated non-core.

In a fundamental change to the way in which the Company had previously operated, multi-disciplinary teams were assigned responsibility for the exploitation of each core area. Additional teams were established to optimize the value of non-core properties; to maintain an ongoing acquisition and disposition program; and to focus on new venture exploration opportunities.

A brief assessment of the key characteristics and exploitation potential of each core area is provided later in this review of operations.

#### CAPITAL SPENDING

Capital expenditures on the acquisition of undeveloped acreage in 1994, included outlays of \$27.9 million in Western Canada, mainly directed towards the strengthening of Norcen's position in existing play areas. A further \$4.6 million was incurred in the United States, mostly in connection with the acquisition of 10 blocks in the Gulf of Mexico federal offshore lease sale in March, 1994.

The Company also maintained a high level of geophysical activity in 1994, with outlays of \$37.6 million on the acquisition of seismic data. In Canada, Norcen shot 488 miles of 2-D and 324 square miles of 3-D seismic. In addition, 2,806 miles of 2-D and 377 square miles of 3-D seismic data were purchased from others.

In a major, three year, 3-D seismic shoot currently underway across the Gulf of Mexico, Norcen has increased its coverage from 90 blocks to over 270 blocks.

#### CAPITAL EXPENDITURES

(millions of dollars)

	1994	1993
Oil and Gas		
Land	\$ 32.5	\$ 17.8
Seismic	37.6	32.0
Drilling	166.8	124.4
Facilities	118.2	65.3
	<u>355.1</u>	<u>239.5</u>
Acquisitions*	100.3	160.0
Divestitures	(171.2)	(81.9)
Net Oil and Gas	<u>284.2</u>	<u>317.6</u>
Propane Marketing	26.9	64.9
Minerals and Others		(3.5)
	<u>\$ 311.1</u>	<u>\$ 379.0</u>

\* Excludes NCO acquisition.

In 1994, Norcen drilled a total of 462 gross (235.1 net) working interest wells, resulting in 129 gross (59.5 net) oil and 260 gross (132.9 net) gas discoveries or extensions, for an 84 per cent success ratio. Of the total wells drilled, 429 were located in Western Canada, 13 in the U.S. and 20 in the international arena.

#### ASSET RATIONALIZATION

The Company's asset rationalization program achieved considerable success in 1994, with non-core oil and gas producing property sales generating \$171.2 million. In addition, Norcen sold its Alberta-based industrial gas system, together with the Wabamun/Hinton gas pipeline for \$80.2 million. A portion of the proceeds from property sales were applied to the strategic acquisition of a number of additional oil and gas properties, partly through swap arrangements.

Summary details of the property dispositions and acquisitions were as follows:

	Dispositions	Acquisitions
Financial consideration (millions of dollars)	\$ 171.2	\$ 100.3
Number of transactions	78	24
Proved reserves		
- oil and NGL (mmbbls)	9.8	10.5
- natural gas (bcf)	149	109
Current production rates		
- oil and NGL (b/d)	3,000	2,800
- natural gas (mmcf/d)	55	32

At year end, the Company was in the process of evaluating and packaging many of its non-core oil and gas properties for sale in 1995.

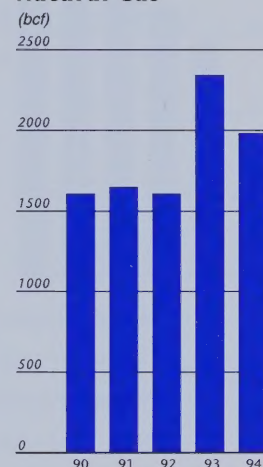
## RESERVES

While exploration and development activity added 12.5 mmbbls of oil and gas liquids and 103 bcf of gas to Norcen's proved reserves in 1994, these gains were more than offset by the combined effects of production, net dispositions of properties, and negative revisions to prior year reserves estimates.

The most significant negative revisions were:

- the reclassification of 19.0 mmbbls of oil and 17 bcf of gas reserves offshore California from the proven undeveloped to the probable category, in view of the considerable uncertainty as to the timing of future development of these reserves;
- the removal of 8.4 mmbbls of reserves at the Vakh oilfield in Western Siberia, due to the negative economics of oil industry activity in Russia at the present time;
- the removal of 3.2 mmbbls of proved and 13.7 mmbbls of probable heavy oil reserves related to the Company's steamflood project at Lindbergh in Alberta, due to the limited success achieved to date;

PROVED RESERVES  
Natural Gas

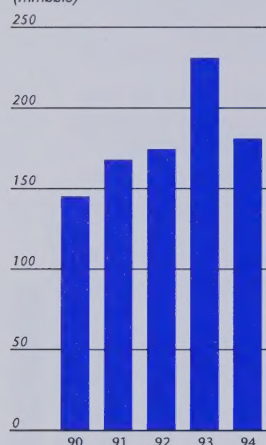


## WELLS DRILLED - 1994

	Oil		Gas		Dry		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Exploration								
Canada	18	14.3	14	11.2	33	26.3	65	51.8
United States	2	0.9			3	1.0	5	1.9
International			1	0.2	12	3.3	13	3.5
	<u>20</u>	<u>15.2</u>	<u>15</u>	<u>11.4</u>	<u>48</u>	<u>30.6</u>	<u>83</u>	<u>57.2</u>
Development								
Canada	103	42.5	236	119.0	25	12.1	364	173.6
United States	1	0.2	7	1.9			8	2.1
International	5	1.6	2	0.6			7	2.2
	<u>109</u>	<u>44.3</u>	<u>245</u>	<u>121.5</u>	<u>25</u>	<u>12.1</u>	<u>379</u>	<u>177.9</u>
<b>Total Wells Drilled</b>	<u><b>129</b></u>	<u><b>59.5</b></u>	<u><b>260</b></u>	<u><b>132.9</b></u>	<u><b>73</b></u>	<u><b>42.7</b></u>	<u><b>462</b></u>	<u><b>235.1</b></u>

# **PROVED RESERVES** **Oil and Gas Liquids**

(mmbbls)



- the removal of 2.8 mmbbls of reserves associated with Norcen's royalty interest in the tar sands production of Suncor Inc. in Alberta, because the price sensitive nature of the royalty causes volatility in potential reserves estimates; and
- the reduction of 184 bcf of gas from Canadian gas reserves, mainly as the result of additional testing of capped wells and reservoir re-evaluations.

The reserves values included in the accompanying table, "Estimated Present Worth of Reserves", are based upon proven plus probable reserves estimates prepared by Norcen's engineers. These values represent the forecasted income derived from the production and sale of net reserves, less future capital expenditures (excluding abandonments and salvage), wellhead costs and production royalties, but before income taxes and other corporate expenses. The values were calculated using escalated prices from the average of the current price forecasts of three major Calgary consultants, as adjusted for

the quality and location of Norcen's reserves.

The average WTI crude oil prices and the average natural gas reference prices at the Henry Hub for the next five years, as calculated from the price forecasts of the three consultants were as follows:

	Average WTI Oil Price (US\$/bbl)	Average Henry Hub Gas Price (US\$/mmbtu)
1995	\$18.00	\$1.72
1996	\$18.79	\$1.94
1997	\$19.79	\$2.15
1998	\$20.77	\$2.27
1999	\$21.77	\$2.40

## **ESTIMATED PRESENT WORTH OF RESERVES**

December 31, 1994

Discount Rate (millions of dollars)	0%	10%	15%	20%
Proved:				
Producing	\$ 4,179	\$ 2,089	\$ 1,717	\$ 1,472
Non-producing	1,018	488	370	291
Undeveloped	780	367	276	217
Total Proved	\$ 5,977	\$ 2,944	\$ 2,363	\$ 1,980
Probable	\$ 1,814	\$ 548	\$ 362	\$ 257

## **RESERVES RECONCILIATION**

	Oil and Gas Liquids (mmbbls)			Natural Gas (bcf)		
	Proved	Probable	Total	Proved	Probable	Total
December 31, 1993	230.8	69.9	300.7	2,344	300	2,644
Exploration and development	12.5	(0.9)	11.6	103	32	135
Revisions	(39.2)	2.1	(37.1)	(228)	51	(177)
Acquisitions	10.5	2.1	12.6	109	11	120
Dispositions	(9.8)	(0.2)	(10.0)	(149)	(9)	(158)
Production	(23.8)		(23.8)	(202)		(202)
<b>December 31, 1994</b>	<b>181.0</b>	<b>73.0</b>	<b>254.0</b>	<b>1,977</b>	<b>385</b>	<b>2,362</b>
Life index (years)	7.6		10.7	9.8		11.7

## PRODUCTION

Production of both oil and gas climbed to record levels in 1994, mainly as the result of:

- a) the full year effects of the acquisition of North Canadian Oils Limited, consolidated for only nine months, from April 1, in the previous year;
- b) the acquisition of producing gas properties in the Gulf of Mexico, effective December 30, 1993; and

- c) the Company's share of escalating production from the Oritupano-Leona oil field reactivation project in Venezuela.

Norcen's worldwide production of crude oil in 1994 averaged 59,300 b/d, up 17 per cent from the previous year. Production of natural gas liquids averaged 9,400 b/d, up from 8,800 b/d, and natural gas volumes, at 554 mmcf/d, were up 15 per cent.

## SUMMARY OF 1994 PRODUCTION AND YEAR-END RESERVES

	Production			Proved Reserves	
	Oil & NGL (b/d)	Natural Gas (mmcf/d)	Total (boe/d)	Oil & NGL (mmbbls)	Natural Gas (bcf)
<b>CORE AREAS:</b>					
Western Canada					
Taber	12,500	16	14,100	24.8	85
Rimbey	5,800	54	11,200	21.9	241
Progress	3,300	59	9,200	9.6	220
Hatton		85	8,500	0.3	328
Peace River	7,600		7,600	10.3	
Provost	5,000	20	7,000	8.9	48
Elk Point	2,000	33	5,300	6.0	138
Kaybob	1,000	13	2,300	3.1	67
Jedney	200	10	1,200	0.9	78
	<u>37,400</u>	<u>290</u>	<u>66,400</u>	<u>85.8</u>	<u>1,205</u>
Gulf of Mexico	3,100	78	10,900	13.6	214
Venezuela	4,300		4,300	44.5	
Argentina	2,200	18	4,000	5.3	49
<b>TOTAL CORE:</b>	<u><b>47,000</b></u>	<u><b>386</b></u>	<u><b>85,600</b></u>	<u><b>149.2</b></u>	<u><b>1,468</b></u>
<b>NON-CORE PROPERTIES:</b>					
Western Canada	13,600	157	29,300	24.3	464
Australia	3,700		3,700	3.6	
Russia	2,800		2,800		
United States	1,600	11	2,700	1.7	2
New Zealand				2.2	43
<b>TOTAL NON-CORE:</b>	<u><b>21,700</b></u>	<u><b>168</b></u>	<u><b>38,500</b></u>	<u><b>31.8</b></u>	<u><b>509</b></u>
<b>TOTAL</b>	<u><b>68,700</b></u>	<u><b>554</b></u>	<u><b>124,100</b></u>	<u><b>181.0</b></u>	<u><b>1,977</b></u>

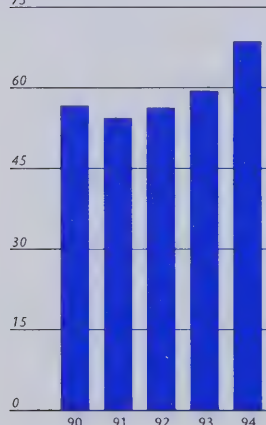
## PRODUCT PRICES AND MARKETING

Marketing expertise was an imperative in 1994, as the competitive nature of the market place intensified, particularly in Canada. A major challenge for the Canadian industry was the increasing deliverability of gas in Western Canada, which, combined with export pipeline capacity limitations, resulted in significant gas-on-gas competition and severe downward pressure on prices. Furthermore, unseasonably warm weather in eastern Canada and much of the U.S. dampened normal winter demand and added to the erosion of market prices.

The West Texas Intermediate crude oil price, the benchmark for North American prices,

averaged U.S.\$17.20/bbl in 1994, having fluctuated within the range U.S.\$13.93 to \$20.75/bbl during the year. At year end the WTI price stood at U.S.\$17.76/bbl. Natural gas prices across North America, as measured by the NYMEX near month price, fluctuated, for the most part, between U.S.\$2.00/mmbtu and U.S.\$2.60/mmbtu during the first half of 1994. Over the second half, prices were generally in decline, closing the year at U.S.\$1.72/mmbtu.

**PRODUCTION  
Oil & Gas Liquids**  
(mb/d)



## CRUDE OIL & NGL

In Canada, flexibility in contract term, price structure and volume has been shown to be key in achieving higher than average oil prices. Supporting this philosophy, Norcen believes that its strategy of diversification of market and buyer type, and emphasis on market growth areas will enable it to maintain a strong price leadership role. With additional export pipeline capacity coming onstream in 1995, Norcen expects to see the disappearance of most, if not all, feeder pipeline restrictions which have plagued the industry for the past two years. The average prices realized by

Norcen for its oil production in 1994 were as follows:

### Average Oil Prices Realized

(Canadian dollars per barrel)	1994	1993
Full price per barrel		
- Canada/U.S./Australia/Argentina	\$ 19.27	\$ 18.41
Operating fee/netback per barrel		
- Venezuela	\$ 7.86	—
- Russia	\$ 2.63	\$ 4.22
Expressed as an overall average price	\$ 17.66	\$ 17.58

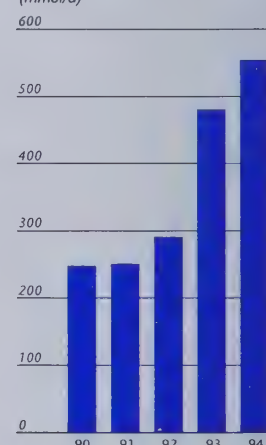
## NATURAL GAS

Norcen has been successful in meeting its major objectives of simplifying and reducing third party marketing activities. The Company has now highgraded its markets and established a strong base of long term direct sales.

Norcen's current short term industry supply/demand outlook for gas in Western Canada anticipates growing deliverability over the next two years from new exploration and current surplus gas supply. As this occurs, export pipeline capacity will be increasing in value which should complement Norcen's market development efforts. These efforts will be concentrated on long term sales for existing pipeline commitments on the Pacific Gas Transmission pipeline (to California and the Pacific Northwest), the Northern Border pipeline (to the U.S. Midwest) and the TransCanada pipeline (to the U.S. Northeast).

Norcen's overall average Canadian gas price in 1994 was \$1.78/mcf, compared to \$1.63/mcf in 1993. The average price realized by Norcen for its worldwide production of natural gas in 1994, rose to \$1.85/mcf, compared to \$1.74/mcf in 1993. Anticipating the falling market for gas in the latter part of 1994, Norcen moved early to tie a

**PRODUCTION  
Natural Gas**  
(mmcf/d)



significant portion of 1994/95 production to direct, fixed price contracts, ahead of the declines. As a result, less than 18 per cent of the Company's anticipated 1995 Canadian gas production is exposed to the currently, excessively weak Alberta gas prices. In addition, Norcen has entered into fixed price sales commitments for an estimated 50 per cent of its U.S. production, at the U.S.\$2.00/mcf level for most of 1995.

#### OIL AND GAS NETBACKS

The Company's average netbacks in 1994 were little changed from a year earlier, as higher prices for gas, and lower operating costs for oil, were essentially offset by increases in royalty expense, as illustrated in the following table:

Netbacks	Crude Oil (per bbl)		Gas & NGL (per mcf)	
	1994	1993	1994	1993
Price	\$ 17.66	\$ 17.58	\$ 1.78	\$ 1.71
Royalty expense	2.86	2.79	0.38	0.30
Operating cost	4.40	4.58	0.34	0.33
Administrative costs	1.62	1.93	0.16	0.19
Netback	<u>\$ 8.78</u>	<u>\$ 8.28</u>	<u>\$ 0.90</u>	<u>\$ 0.89</u>

The combined prices for gas and NGL in the preceding table reflect average prices of \$1.85 and \$1.74 per mcf for gas and \$14.35 and \$15.37 per bbl for NGL in 1994 and 1993, respectively.

Administrative costs per unit of production have been calculated before capitalization of \$7.4 million in 1994 and \$9.9 million in 1993. Commencing in 1995, administrative costs will cease to be capitalized. The decline in 1994 administrative costs per unit of production reflects sharply higher production levels in 1994 plus one-time business combination costs in 1993, associated with the merging of NCO's operations with Norcen's.

In 1995, the Company expects to achieve further significant reductions in administrative costs, mainly as the result of restructuring initiatives undertaken in the fourth quarter of 1994.

#### OIL AND GAS LAND HOLDINGS at December 31, 1994

(thousands of acres)

	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
Western Canada	3,720	1,721	2,971	1,775	6,691	3,496
United States	124	44	349	144	473	188
Argentina	327	62	12,589	5,852	12,916	5,914
Venezuela	22	10	411	185	433	195
	<u>4,193</u>	<u>1,837</u>	<u>16,320</u>	<u>7,956</u>	<u>20,513</u>	<u>9,793</u>
Canadian frontier and other international	667	75	9,860	2,880	10,527	2,955
	<u>4,860</u>	<u>1,912</u>	<u>26,180</u>	<u>10,836</u>	<u>31,040</u>	<u>12,748</u>

## EXPLORATION AND DEVELOPMENT FOCUS

Currently, Norcen's Canadian production is almost evenly split between oil and gas. For the near term, with the emphasis on aggressive core area development, the Company will have a balanced exposure to commodity market forces. Over the longer term, given the mature stage of oil exploration in the Western Sedimentary Basin, as well as geological predictions of substantial undiscovered gas in the region, gas production will be expected to steadily outstrip oil production. In 1994, the greater part of Norcen's exploration effort in Canada was linked to the further exploitation of core producing properties. A significant feature of the Canadian program was the acquisition of a 100 per cent working interest in three large licences at Sierra in northeastern British Columbia. Subsequent activity included a 3-D seismic survey covering 92 square miles of the acquired property, which has the potential for large gas reserves. In higher risk exploration, the Company continued to focus on deep foothills prospects.

In the Gulf of Mexico, Norcen further strengthened its operating position in 1994, through both property acquisition and drilling successes. With ready markets, premium prices, and extensive infrastructure already in place, Norcen is looking forward to capitalizing on its growing inventory of exploration and development opportunities in this region.

Outside of North America, drilling activity on the Oritupano-Leona block in Venezuela is gaining momentum, and in Argentina an increasing emphasis is being directed towards exploitation opportunities on the Company's existing producing acreage.

In Indonesia, the Company drilled a multi-zone gas discovery at Wunut, on the Brantas block on the island of Java. Of four zones tested, three flowed gas at a combined rate of 7.2 mmcf/d. The other zone was tight. Delineation drilling is planned for 1995. Norcen holds a 20 per cent interest in the Brantas block.

To maintain an exposure to large discovery potential, the Company expects to spend in the range of five to 10 per cent of its oil and gas capital budget on higher risk/higher reward new venture exploration opportunities within the vicinity of current core areas.

## REVIEW OF CORE AREAS

### TABER

Located in southern Alberta, Taber ranks as one of Norcen's major producing areas, with 1994 production averaging 12,500 b/d of oil and gas liquids and 16 mmcf/d of gas. At year-end, Norcen's share of proven reserves in this area totalled 24.8 mmbbls of oil and gas liquids and 85 bcf of gas. Oil production is mainly light and medium gravity crude from the Nisku, Sawtooth and Glauconitic zones.

Norcen is the operator of virtually all of its land holdings in this area. Added competitive advantages for Norcen include large, existing infrastructure with 20 oil batteries and a solution sour gas plant, low operating costs and low incremental finding and development costs.

Major production gains were achieved in late 1994, with the completion of a sour solution gas gathering and processing facility, which allowed the introduction of "good production practice" and resulted in an increase of more than 2,400 b/d to Norcen's production from two pools.

Going forward, a variety of opportunities exist to enhance production from existing reserves in the area, and the potential to explore for additional Glauconitic and Bow Island gas and Sawtooth oil also has been identified. Objectives include maintaining production of both oil and gas by accelerating production, drilling, and pool optimization, including additional waterfloods and expansion of sour solution gas facilities.

## PROVOST

The Provost area, straddling the Alberta/Saskatchewan border and embracing such noteworthy field locations as Provost, Bodo and Court, is characterized mainly as a heavy oil and natural gas region. Norcen's share of production from the area in 1994 averaged 5,000 b/d of oil and 20 mmcf/d of gas. Proved reserves at year end amounted to 8.9 mmbbls of oil and 48 bcf of gas.

On the Alberta side, Norcen holds an average 40 per cent interest in a relatively well developed land position. Most of the production from these properties is heavy oil with almost all operated by Norcen. On the Saskatchewan side, where Norcen has an average working interest of around

60 per cent, the Company has a more balanced focus between oil and gas, and enjoys a modest undeveloped land base.

Key competitive advantages, upon which the Company expects to capitalize in the Provost area, include:

- a) Ownership of major heavy oil pools with significant development capability;
- b) A data base of 3-D seismic over the Company's major pools, which has provided excellent pool definition for horizontal drilling and enhanced oil recovery opportunities;

## WESTERN CANADIAN CORE AREAS



## REGIONS OF OPERATING EMPHASIS



c) Horizontal well and steam flood technology, enabling Norcen to accelerate economic returns, increase recoverable oil and reduce operating costs;

d) Existing infrastructure, including pipeline access to a number of systems, and ownership of oil storage facilities provides Norcen with considerable marketing flexibility, especially during periods of low prices.

Major events in the Provost area in 1994, included the increase in Norcen's ownership in the Court field to 64.5 per cent, allowing the Company to take over operatorship and commence development.

In 1995, the major focus will be on continued horizontal well development at Bodo, Provost and Court.

#### **RIMBEY**

The Rimbey core area is in a mature region of south-central Alberta, where production is predominantly sweet gas with high liquid content from Cretaceous age sands. The primary focus is on exploitation of the multi-zone opportunities along the Hoadley glauconitic gas trend. Key characteristics of this gas prone area, include:

- a) Norcen ownership in several gas plants and related infrastructure, which will be an advantage when developing new gas reserves in these areas.
- b) Near term exploitation and development opportunities at Hoadley (Glaconitic and Basal Quartz), Phoenix (Glaconitic) and Alhambra (Basal Quartz and Ostracod).
- c) Easily available gas transportation on an interruptible basis, which will facilitate early development of new reserves.

d) Considerable potential for deeper gas exploration.

At year end, Norcen's proven reserves in the Rimbey area totalled 241 bcf of gas and 21.9 million barrels of oil and gas liquids. Production from the area in 1994 averaged 54 mmcf/d of gas and 5,800 b/d of oil and gas liquids.

Looking ahead, there will be a strong emphasis towards adding production from existing fields and exploiting the exploration and development opportunities on existing lands in the Alhambra, Davey Lake, Phoenix and Ferrier areas.

#### **PROGRESS**

The Progress core area, straddling the Alberta/British Columbia border, encompasses major producing properties at Chinchaga, Progress and Spirit River. In total, Norcen operates ten facilities, with a total gross capacity of 145 mmcf/d of gas and 6,900 b/d of oil and liquids in this area. This represents a strong competitive advantage enabling rapid development of new production at low operating costs.

This core area offers multiple objectives, at various stratigraphic levels, providing extensive, full-cycle exploration/development potential. Norcen has a long-established presence, and enjoys high working interests in a strong land position, much of it undeveloped.

In 1994, drilling activity was high with 24 wells drilled, including two horizontal wells. All but one of the wells were cased for production. Late in the year, the 1994-95 winter seismic program was underway with plans for over 134 miles of new seismic to be shot. At year end 1994, expansion of the Progress gas plant was well advanced with completion anticipated in March, 1995. Norcen's share of the incremental production resulting from the expansion will be approximately 21 mmcf/d of gas plus 500 b/d of natural gas liquids.



*Installation of new de-ethanizer tower for Progress gas plant expansion.*

Proven reserves in this core area, at 1994 year-end, amounted to 220 bcf of gas and 9.6 mmbbls of oil and gas liquids. Production in 1994 averaged 59 mmcf/d of gas plus 3,300 b/d of oil and gas liquids.

The focus of future activity will be directed primarily towards reserve additions on existing lands in the vicinity of existing facilities and infrastructure, plus an increasing emphasis on evaluating other attractive multi-zone exploration plays.

## **HATTON**

Located in southwestern Saskatchewan, Hatton is Norcen's largest gas producing area with 1994 production averaging 85 mmcf/d. At 1994 year-end, proven reserves totalled 328 bcf of gas plus 0.3 mmbbls of oil and gas liquids.

Within this core area, Norcen holds an average 75 per cent working interest and an approximate 90 per cent operatorship of its extensive lands and facilities. Over the past few years, activity has focused on building and maintaining gas deliverability. In 1994, a total of 137 infill wells were drilled on existing proven acreage, resulting in a modest improvement in production rates. No new reserves were added, since all of the reserves had been previously booked as proved non-producing reserves. Further infill drilling is planned for 1995.

Seismic and drilling activity is also planned for the Tomkins West area where Norcen purchased a 26 section parcel of undeveloped acreage late in 1994. In January 1995, the Company completed the acquisition of additional working interests at both North and South Sandhills, raising Norcen's interests in both properties to 45.8 per cent. The Company plans to pursue further opportunities to consolidate its working interests in this core area.

## **ELK POINT**

Norcen holds an average 60 per cent working interest in approximately 25 per cent of its lands in the Elk Point core area. A key aspect of this area is the Company's heavy oil land position at Lindbergh. These lands are freehold property, owned 100 per cent by Norcen and held in fee simple, with no royalties payable on production.

While the Elk Point core area is significant for its heavy oil potential, it is also a major producer of gas for Norcen. In 1994, Norcen's share of gas production from the area averaged 33 mmcf/d, and oil production averaged 2,000 b/d. At 1994 year end, Norcen's proven reserves at Elk Point totalled 138 bcf of gas and 6.0 mmbbls of oil. All of the oil in this area is heavy, and is found in a variety of the Mannville sands but is most dominant in Basal Mannville, Sparky and GP zones. Gas is also found in the Mannville sands, primarily Colony channels with secondary zones of Viking, Glauconite and Basal Quartz.

In addition to the multi-zone potential for oil and gas throughout the area, which reduces drilling risk, key operating features of the Elk Point area include:

- a) Extensive seismic coverage on hand, allowing rapid evaluation of target areas. A lot of this seismic was shot in the early 1980s, and is now available for reprocessing with modern techniques for better definition. Additions to the seismic data base in 1994 included two 3-D seismic programs which were shot to assist in reservoir delineation for horizontal drilling.
- b) Extensive infrastructure, facilitating the tie-in of new production. Norcen has interests in 440 gas wells, 340 oil wells, 23 compressor stations and a heavy oil cleaning plant within this core area. Many of the compressor stations and the cleaning plant have excess capacity, allowing Norcen to bring on new production at an attractive incremental cost. The Company's plans for 1995 include an aggressive drilling program, targeted on both oil and gas.
- c) Large undeveloped heavy oil reserves on the Lindbergh freehold land.

#### **KAYBOB**

The Kaybob area is located in west-central Alberta. The terrain is rough muskeg and the area is largely restricted to winter access only. Proven reserves at year end totalled 67 bcf of gas and 3.1 mmbbls of oil and gas liquids. Having only modest levels of production, the Kaybob area offers little opportunity for exploitation. Its strategic value lies in its significant multi-zone hydrocarbon potential. Norcen enjoys a large undeveloped land base in the region and a significant accumulation of 2-D and 3-D seismic data.

The acreage extent of the Kaybob area provides room for growth over the next few years

through land purchases and seismic acquisition on prospective trends, so that plays can move outward with time. The main thrust of Norcen's activity over the near term, will be exploration of the shallow Cretaceous and Montney sandstones, which are believed to be underexplored. At the same time, an emphasis will be directed towards evaluating the Company's lease acreage approaching expiry.

#### **PEACE RIVER ARCH**

The Peace River Arch area is Norcen's second largest oil producing area with mainly light oil production. Norcen has a large land and seismic base in the area which offers substantial full-cycle exploration/development potential. The established area, located in central/northwestern Alberta, embraces such fields as Evi, Golden, Gift, and Kitty. Norcen holds an average 55 per cent working interest in the Norcen interest lands in the area, and operates 95 per cent of those properties. New lands are being acquired at the 100 per cent working interest level.

In 1994, Norcen's share of production from this core area averaged 7,600 b/d of oil. Proven reserves at year end amounted to 10.3 mmbbls of oil.

Norcen has a long history of operating achievement in the Peace River Arch area, with a drilling success ratio in excess of 70 per cent. Much of that success has resulted from extensive use of 3-D seismic data. Over the current 1994/95 winter period, Norcen has an active land acquisition, seismic and drilling program.

#### **JEDNEY**

The Jedney area centres around the Beatton River in northeastern British Columbia, and encompasses Norcen's existing land base plus acreage identified with potential in the Bluesky, Triassic Baldonnel, Charlie Lake and Halfway. Norcen's production from this area in 1994 averaged 10 mmcf/d of gas, all from the Jedney

field, with 78 bcf of proven gas reserves and 0.9 mmbbls of proven liquids reserves.

Having worked this area for several years and accumulated a good land position and seismic data base, Norcen has an excellent understanding of its geology. A key characteristic of the area is its multi-zone potential for light crude and sweet gas at relatively shallow depths.

The Jedney area is currently in the early stage of its exploration/development life cycle, and 1995 will focus on consolidating selective land holdings for an active 1995/96 winter drilling program.

### **GULF OF MEXICO**

Norcen's production from the Gulf of Mexico core area in 1994 averaged 3,100 b/d of oil and gas liquids and 78 mmcf/d of gas. Proven reserves in this area at year end totalled 13.6 mmbbls of oil and gas liquids and 214 bcf of gas. Included in the Gulf of Mexico core area is the Bayou Vermilion property, which is onshore Louisiana and produced 24 mmcf/d of gas and 157 b/d of liquids.

In December 1994, Norcen strengthened its position offshore Louisiana with the acquisition of additional

producing property interests for U.S.\$23.6 million, which added 23 bcf of gas and 3.3 mmbbls of oil to proved reserves. At year end, Norcen was producing 102 mmcf/d of gas and 4,200 b/d of oil from this core area.

In the shallow waters of the Gulf, Norcen holds an average 43 per cent working interest in 68 blocks, covering 325,400 gross acres, and operates 28 production platforms and 134 producing wells in the area.

Key aspects of the operating environment in the Gulf of Mexico, which led to its selection as a core area include:

- a) Norcen operates 95 per cent of its producing acreage and the majority of its exploratory prospects, permitting the Company to control the timing and costs of exploration and exploitation projects.
- b) Relatively high production per field results in low unit operating and administrative costs. The royalty burden on offshore properties is also lower than that of onshore properties, and less costly to administer.
- c) Norcen is currently enhancing its already large seismic database through participation in a central Gulf of Mexico 3-D seismic mega-survey, which will provide the Company with over 270 new blocks of low cost 3-D seismic data.
- d) Significant discoveries are continually being made on the Gulf's shelf, and with the advantage of 3-D seismic interpretation, exploration opportunities on Norcen's blocks have significant potential.
- e) Natural gas produced from the region is served by a number of major pipeline systems with sufficient capacity to transport gas at full deliverability throughout the year.



*The Rowan Paris jack-up rig drilling on Norcen's Eugene Island Block 306.*

The main focus of Norcen's operating activity in 1994 was on the Eugene Island, Ship Shoal and South Marsh Island properties.

Early in 1994, a successful, three-well horizontal drilling program on Eugene Island Block 306 added 9 mmcf/d of gas production. Later in the year, on the same block, a successful two-well conventional drilling program added a further 5.7 mmcf/d of gas and 50 b/d of oil production.

On Eugene Island Block 162, a third development well increased Norcen's share of field production by more than 50 per cent, to 25 mmcf/d of gas and 720 b/d of oil.

On Ship Shoal Block 190, a discovery well, which encountered 84 feet of net pay, was tied in and on production in November with rates of 500 b/d of oil and 1.3 mmcf/d of gas to Norcen's account. A follow-up development well encountered reserves in additional producing horizons and is currently being completed, with production anticipated in mid-1995. Additional development drilling is planned for this discovery.

In the South Marsh Island and Ship Shoal areas, a major production enhancement program, including 22 separate well workovers, resulted in production gains of 10.8 mmcf/d of gas and 340 b/d of oil to Norcen's account.

## VENEZUELA

In Venezuela, Norcen is a 45 per cent working interest partner in a consortium which, in 1993, was awarded a 20 year, oil field reactivation and development contract on the Oritupano-Leona block, located in the Eastern Venezuelan basin. The consortium assumed operatorship of this 333,000 acre block on March 1, 1994. At that time, only 65 of the 475, mostly old wells on the block were on production, producing a total of 9,000 barrels of oil per day.

In 1994, a high level of production enhancement activity took place, including major workovers

of shut-in wells, upgrade and repair of artificial lift systems, and production facility de-bottlenecking. Four new wells also were drilled late in the year and two of these were on production at year-end. Other significant activities included commencement, in December, of a 420 square mile, 3-D seismic program. Expenditures by the consortium on the block in 1994 totalled \$51.1 million, with a large part incurred on facility upgrades to produce sales specification crude oil, as wells as to allow operations to continue in an environmentally-sound manner. At 1994 year-end, six service rigs and two drilling rigs were operating continuously on the block.

The result of the production enhancement activities in 1994, was a rise in production to 19,500 b/d (8,800 b/d net to Norcen) by year end. The main elements of the 1995 program will be further well workovers, development drilling and improvements in production lifting efficiencies. The results of 3-D seismic interpretation will play a key role in identifying development drilling opportunities.

The consortium earns an operating fee of U.S.\$5.15 per barrel for all oil production from the block, subject to certain escalation provisions. In 1994, the fee fluctuated between U.S.\$5.15 and U.S.\$5.45/bbl. In addition, capital expenditures are recovered over a ten year period, on a straight-line basis, together with accrued interest on outstanding balances. Operating costs, which averaged approximately U.S.\$2.67/bbl in 1994, are for the account of the consortium. In 1995, the consortium expects unit operating costs to reduce due to production increases. The total net operating and capital fees received in 1994 averaged U.S.\$5.72/bbl (Cdn.\$7.86/bbl) and are expected to increase to U.S.\$6.10/bbl (Cdn.\$8.48/bbl) in 1995.

Norcen will be considering future development projects as the Venezuelan government continues to make additional opportunities available.

## ARGENTINA

Over the past few years, Norcen has established a firm base of operations in Argentina. Currently, the Company holds interests in four producing blocks and four grass-roots exploration blocks. Two of the exploration blocks are located offshore. In total, Norcen's working interests average 46 per cent in 12.9 million gross acres.

Norcen's production from Argentina in 1994 averaged 2,200 b/d of oil and gas liquids and 18 mmcf/d of gas. Year end reserves amounted to 5.3 mmbbls of oil and gas liquids and 49 bcf of gas.

The designation of Argentina as a core area for Norcen reflects its significant potential for low cost reserve additions and low cost production. Key features of the Argentinean operating environment include:

- a) Similar geology to Western Canada, providing Norcen with the opportunity to gain a competitive advantage through transportation of its proven exploitation techniques to Argentina.
- b) Extensive unexplored and underexplored acreage.
- c) Low cost reserve potential, as drilling costs are comparable to Western Canada, but reserves targets are much larger.
- d) Extensive infrastructure in place, despite the relative exploration immaturity of the region.
- e) Attractive fiscal regime, reflecting low royalty rates and a low corporate income tax rate.

Activity in 1994 included the acquisition of the El Santiagueño block for U.S.\$13.3 million, which added 2.6 mmbbls of oil and gas liquids and seven bcf of gas to Norcen's proved reserves base. Located in the Neuquen basin, El Santiagueño lies

adjacent to the Agua Salada block in which Norcen holds a 30 per cent working interest. Two gas development wells drilled on the Agua Salada block, to enhance reserves recovery and improve production efficiency, were successfully completed and on production prior to year end. Norcen's primary focus for 1995 will be to exploit further the potential of this area.

## NON-CORE AREAS

Norcen's non-core assets will be managed separately from its core assets to ensure maximum focus of capital and employee effort on those assets with good future growth potential. Norcen's non-core assets are good quality assets but the Company does not have a competitive advantage in these areas and hence does not feel it can add significant shareholder value.

In Western Canada, Norcen's non-core oil and gas assets are for the most part, widely scattered, mature producing properties, offering little, if any, strategic fit with the Company's core areas. At year-end 1994, these non-core properties accounted for 13 per cent of proved oil and gas liquids reserves and 23 per cent of proved gas reserves.

Non-core oil and gas properties in the United States are currently in the process of being sold. Outside of North America, the Company's principal non-core oil and gas assets comprise producing oil properties in Australia's Timor Sea, plus undeveloped reserves associated with the Kupe South gas field in New Zealand, and the Wunut gas field on the Brantas block in Indonesia.

The total reserves of Norcen's international non-core assets account for three per cent of the Company's proved oil and gas liquids reserves and two per cent of its proved gas reserves.

Other natural resource assets designated as non-core, include Norcen's gross over-riding royalty from Suncor Inc. on its synthetic crude oil production from bituminous sands located near Fort

McMurray in Alberta; and a seven per cent royalty interest in iron ore sales by Iron Ore Company of Canada ("IOC") from mineral leases in Labrador. While revenue from the Suncor royalty is somewhat unpredictable, due to the oil price sensitive nature of the royalty formula, the iron ore royalty has consistently generated net revenue in the \$25 to \$30 million range over the past several years. In addition, Norcen holds an 11 per cent equity interest in IOC.

During 1995, the Company will assess the opportunity to maximize the value of these assets and plans to dispose of \$200 to \$300 million of its non-core assets.

## **ENVIRONMENTAL AND COMMUNITY AFFAIRS**

During 1994, Norcen continued to reduce the Company's overall environmental liability. Reclamation certificates were received for 112 abandoned well sites, reducing the inventory of outstanding sites to 500. Clean up of pits and ponds was initiated with 50 of the 100 sites being assessed for reclamation. Clean up of ground water contamination of the decommissioned Corbett Creek Gas Plant, in Alberta was also initiated. This project is expected to take seven years and cost a total of \$1 million. Environmental planning activities focused on impact assessments for seismic and drilling projects in the eastern slopes of Alberta, northeastern British Columbia, southwest Saskatchewan and offshore Argentina. Safety and environment audits were completed on 18 facilities during 1994. All Norcen's major facilities have now been assessed. The Company's goal is to audit all major facilities every three years. Norcen recognizes the importance of effective environmental management and continues to develop and enhance its system to deal with new issues.

In communities where the Company has employees and operations, close to 27,000 litres of household toxic waste were collected at Norcen-funded roundups in 1994. Other community support activities included contributions in excess of \$600,000 to a variety of charitable and non-profit organizations across Canada. Additional donations, of gifts in kind, valued at approximately \$3.6 million, included a paper well-log library, two gas plant control systems and a number of personal computers.

Norcen's propane marketing division markets propane, propane consuming appliances and related services to residential, commercial, agricultural,

industrial and automotive propane markets in Canada and the U.S. midwest. In 1994, the Company's propane sales totalled 1,869 million litres, up 20 per cent from a year earlier, primarily reflecting the acquisition of Premier Propane late in 1993. Norcen ranks as the fourth largest retail propane marketer in North America under the brand name of "Superior" in Canada and "Skelgas" in the U.S. midwest.

Norcen has two initiatives underway to reduce costs and increase the focus on improving customer service. The first initiative will flatten the organization, to strengthen customer service centres, and was completed in February, 1995. The second initiative will simplify business processes with particular emphasis on customer satisfaction, productivity, cost efficiency and employee and partner satisfaction. Both of these initiatives will reduce costs and a provision for these restructuring costs was taken at December 31, 1994.

## REVIEW OF 1994 ACTIVITY

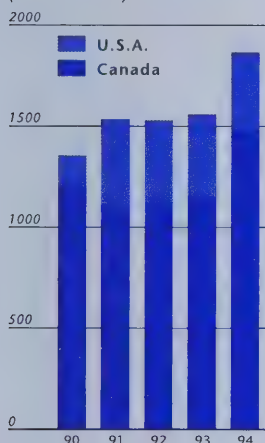
Norcen completed the acquisition of Premier by integrating Premier's 22 branches and Norcen's 27 branches in Western Canada into a total of just 25 branches. In addition, a ten year supply contract, previously held by Premier, was renegotiated with Mohawk Oil, a major customer; and Norcen gained access to the Yukon market.

Other market growth initiatives included the Company's growing cardlock network, aggressive pursuit of oil field supply opportunities in Western Canada, and a long term strategic alliance with Shell Canada, whereby Norcen gained exclusive access to the Shell downstream retail network for auto propane distribution. The Company completed a ten year transportation arrangement with Economy Carriers Limited in Western Canada, providing Norcen with attractive freight rates. In recognition of Norcen's increased scale of operations, improved rail freight rates were negotiated with Canadian National and Canadian Pacific.

The Company's efforts to position propane as the leading alternative transportation fuel in Canada, the United States and Mexico were strongly pursued in 1994. Norcen worked with various provincial governments to provide industry input into their alternative fuels plans.

## PROPANE SALES

(millions of litres)



Norcen's propane business has grown significantly over the last few years primarily through acquisitions. In Canada, Norcen accounts for just under one-half of the total propane market, with approximately 75 other propane retailers sharing the remainder of that market. In the United States Norcen's marketing network extends to 10 midwestern states. The U.S. propane market is served by over 3,500 marketers, with the top four U.S. marketers holding only 25 per cent of the total market.

Norcen's propane strategy is to continue to reduce costs and expand the Company's market by focussing on customer service. In Canada, further market growth lies primarily in a rejuvenation of the auto propane market and the continued promotion of propane as a cost effective alternative to electricity. In the United States, where the industry is highly fragmented, there are significant opportunities to grow through consolidation, as well as in the emerging market for alternative transportation fuels.

In British Columbia, the provincial government and the propane industry, led by Norcen, are developing a program to utilize alternative fuels in meeting B.C.'s environmental goals. The Company also continued to sponsor research and development initiatives to promote the advancement of alternative fuels technology and equipment.

## OUTLOOK FOR 1995

Initiatives underway at 1994 year-end, directed primarily at improving profitability, included the restructuring of the field organization, and a re-engineering effort aimed at streamlining business processes and eliminating activities not directly adding value to customers.

The restructuring program was completed in February, 1995, with the transformation of the Company's traditional retail operation into market units and customer service centres. Each market unit comprises several customer service centres, with the number depending on such factors as customer make-up, geographic size, competitive forces and mix of assets. The restructuring has

resulted in an employee reduction, including the elimination of one level of management.

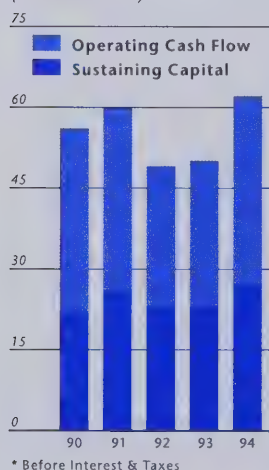
Ongoing activity will include the evaluation and ranking of each market according to its potential. Joint ventures and asset trades offering opportunities to leverage the Company's supply position, eliminate the duplication of overhead and maximize the productivity of assets and infrastructure, also will be investigated.

To achieve increased market density and cost efficiencies within the Company's U.S. marketing

region, selected infill acquisitions will be sought in high potential segments of the market. Barbecue and auto propane refuelling centres also will be established in major urban centres. In addition, efforts will continue to focus on transforming Norcen's predominantly rural customer base, through penetration into such large volume urban markets as carburetion lift truck, construction and roofing.

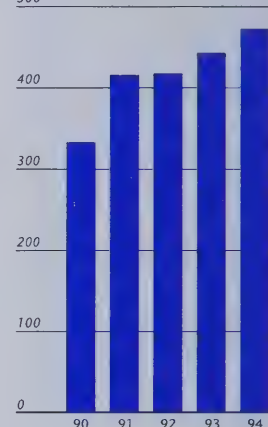
The Company-wide re-engineering effort, launched in 1994, aims to lower operating costs while not compromising services provided. To help facilitate the re-engineering process, an information systems infrastructure has been designed which focuses on five regional information centres to improve cost effectiveness, reliability and ease of information access. This infrastructure, along with an interactive communications platform and enabling technologies, which include truck computers and other point of sale devices, are now being implemented to enable Norcen to further improve productivity.

**PROPANE MARKETING  
Operating Cash Flow\*  
versus  
Sustaining Capital**  
(millions of dollars)



\* Before Interest & Taxes

**PROPANE MARKETING  
Average Net  
Assets Employed**  
(millions of dollars)



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

1994 was a year of significant change at Norcen. During the fourth quarter, a new management team was brought on board. An extensive review of the company's operating strategies was undertaken. In the oil and gas business, all assets were scrutinized to identify those areas in which Norcen has a competitive edge and ability to add value resulting in the identification of 12 core oil and gas areas located in 4 countries where the Company will concentrate its efforts going forward. Multi-disciplinary teams were formed to focus and

exploit each of these core areas. A new performance-based compensation program was introduced in early 1995. The decision was made to retain the Company's Propane Marketing business in order to capitalize on its commanding market share in Canada and to continue to pursue substantial cost reduction opportunities. Non-core assets have been identified aggregating \$700 to \$800 million of carried value representing the Company's remaining oil and gas properties which were determined

not to be core holdings, its equity and royalty interest in the Iron Ore Company of Canada ("IOC"), and its investment portfolio. A rationalization team has been established with the mandate to maximize the value of these assets by pursuing disposition opportunities over the next two to three years.

During the fourth quarter, the remaining common and preferred shares of North Canadian Oils Limited ("NCO") not previously owned by Norcen were acquired at a cost of \$318 million. The completion of this acquisition will enable considerable operational and administrative efficiencies to be realized going forward. This acquisition was financed through the sale of the IGS pipeline system, the Polaris zinc mine net profits interest, substantially all of the cogeneration business and the sale of over 50 per cent of the Company's investment security portfolio. As a result, the Company has significantly increased its exposure to the oil and gas business while holding net debt at levels comparable to last year.

The following discussion and analysis provides management's perspectives on Norcen's 1994 consolidated operating results and financial condition as compared to 1993 as well as a discussion of its oil and gas, propane marketing and mineral resources business segments.

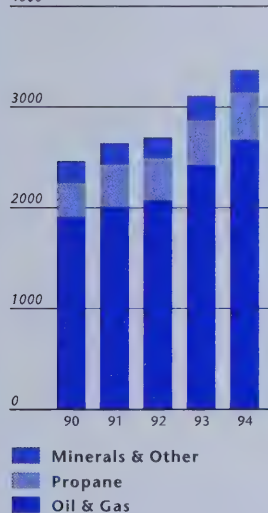
### CONSOLIDATED OPERATING RESULTS

1994 sales at \$1.3 billion were 14 per cent higher than in 1993, primarily as a result of the inclusion of a full year of NCO's production in 1994 and the weaker Canadian dollar.

Investment income at \$17.3 million representing income earned on the Company's security portfolio, was marginally lower than in 1993 due to lower average interest rates and dispositions in 1994.

AVERAGE NET ASSETS  
EMPLOYED BY OPERATING  
BUSINESS SEGMENT

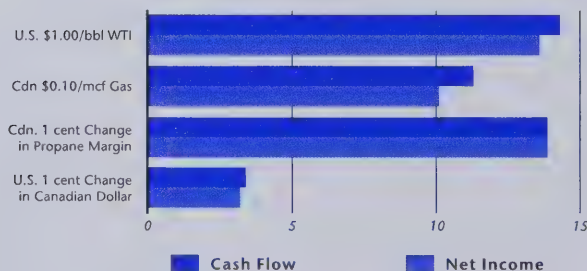
(millions of dollars)



Natural gas prices are influenced by North American supply and demand relationships, by the price of competing fuels, and by transportation and storage constraints. The Company attempts to manage these risks by pursuing opportunities to reduce the risks of price volatility, including product and foreign currency hedging programs and negotiating long term fixed price natural gas contracts.

Operating cash flow in 1995 is expected to be marginally higher than 1994 levels as the benefit of a weaker Canadian dollar and cost reductions in the oil and gas and propane marketing businesses are expected to offset the impact of weak gas markets. Norcen's earnings and cash flow sensitivity to changes in prices, propane margins and the exchange rate, is provided in the table below.

EARNINGS AND CASH FLOW SENSITIVITIES  
TO CHANGES IN PRICES,  
PROPANE MARGINS AND EXCHANGE RATE  
(millions of dollars)



Operating cash flow will be reinvested, of which over 90 per cent will be directed towards the oil and gas segment. Non-core asset dispositions of \$200 to \$300 million are planned for 1995 with the proceeds used, principally, to repay debt.

## OIL AND GAS

Operating earnings (after tax) of \$45 million in 1994 decreased from \$53 million in 1993 due to higher income tax rates offset by higher production and gas prices. Oil and liquids production reached an average of 69,000 barrels per day in 1994 an increase of 10,000 barrels per day over the prior year due to the start up of the Company's Venezuelan operation and the full year inclusion of NCO's production in 1994. Natural gas production reached an average of over 550 mmcf/d in 1994 compared to 480 mmcf/d in 1993 due to increased offshore Gulf Coast production and the full year inclusion of NCO's production. The average realized oil price of Cdn\$17.66/bbl in 1994 was comparable to the 1993 level. The average natural gas and NGL price improved to \$1.78/mcfe from \$1.71 in 1993, although gas prices weakened significantly through year end.

Operating costs of \$181 million in 1994 increased by 12 per cent over the 1993 level. On a BOE production equivalent basis (10:1), total operating costs were reduced to \$3.89/boe compared to \$3.91/boe in 1993.

Administrative costs before capitalization were \$74 million in 1994 compared to \$76 million in 1993 or \$1.62/boe and \$1.93/boe in each year respectively. Administrative cost savings of approximately \$20 million are anticipated in 1995 as a result of restructuring initiatives undertaken in the fourth quarter of 1994. Commencing in 1995, administrative costs will no longer be capitalized.

Depletion and depreciation expense of \$305 million in 1994 increased by 17 per cent over 1993 principally due to higher production. On the basis of six thousand cubic feet of natural gas per barrel, depletion and depreciation expense was \$5.20/bbl in 1994 compared to \$4.98/bbl in 1993, including provision for future restoration and abandonment costs. At December 31, 1994, a liability of \$30 million was recorded to provide for such future costs.

Significant negative reserve revisions in 1994 and disappointing reserve replacement results will contribute to an approximate 12 per cent increase in 1995 depletion rates. Minimal impact on 1995 depletion rates is expected as a result of the \$226 million of asset write-downs recorded in 1994. The majority of the \$95 million of write-downs related to international operations were associated with non-producing properties. The prospective depletion impact of the \$131 million write-down related to the Company's onshore properties in the United States was offset by the reclassification of the Company's undeveloped offshore California oil reserves from the proven to the probable category at year end.

Effective income tax rates increased from 44 per cent in 1993 to 63 per cent in 1994 due, primarily, to the adjustment of deferred tax balances and non-deductible crown payments in excess of resource allowance, resulting in a \$24 million increase in income tax expense.

Capital expenditures, excluding acquisitions, were \$355 million in 1994 compared to \$240 million in 1993. Net property dispositions were \$71 million in 1994 compared to net acquisitions in 1993 of \$78 million, excluding the NCO acquisition.

Capital expenditures in 1995 are expected to remain at a level comparable to 1994 (excluding the NCO acquisition). Approximately 70 per

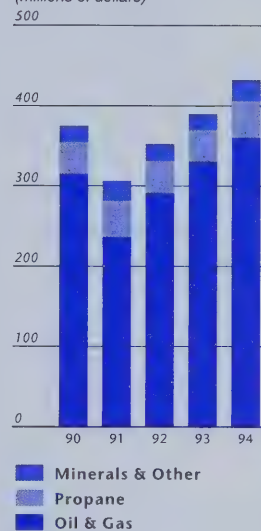
cent is anticipated to be spent in Canada, 15 per cent in the offshore Gulf Coast, and 15 per cent in Argentina and Venezuela, with a balanced mix of oil and gas prospects targeted.

Production in 1995 is expected to remain at 1994 levels with increased oil production from Venezuela and higher gas production from the Gulf Coast expected to offset

lower production due to non-core property sales, although this will depend on the timing, production profile, and extent of non-core properties sold during the year. Oil prices in 1995 are expected to remain around the US\$17.50 WTI level with the price of natural gas realized by Norcen expected to average around \$1.80/mcf.

OPERATING CASH FLOW  
BY BUSINESS SEGMENT  
(Before Interest Expense &  
Investment Income)

(millions of dollars)



## **PROPANE MARKETING**

Operating earnings (after tax) increased to \$16 million in 1994 from \$8 million in 1993 as favourable weather conditions and increased levels of economic activity benefited the first three quarters of 1994, offset by a significant softening of product demand in the fourth quarter due to unseasonably warm weather patterns. The \$44 million acquisition of Premier Propane at the end of 1993 contributed approximately \$5 million of operating earnings in 1994 with increased contributions anticipated in 1995 as integration initiatives are completed and savings realized. Sales volumes reached almost 1.9 billion litres in 1994, an increase of 20 per cent over 1993 principally due to the Premier acquisition. Operating cash flow reached \$46 million in 1994, an increase of \$6 million over 1993. Capital expenditures in 1994 were \$27 million which are representative of ongoing maintenance capital requirements for the business.

Improved earnings in 1995 are anticipated due to several cost reduction initiatives currently underway. A restructuring of the branch organization was implemented in January 1995, resulting in a reduction of the branch work force by close to 10 per cent. A comprehensive re-engineering of business processes initiated during 1994 is anticipated to result in further cost savings in 1995 and improve market service capability. Finally, the return of more seasonal weather patterns in 1995 would contribute to increased sales and profitability.

## **MINERALS AND OTHER**

Operating earnings (after tax) increased to \$15 million from \$4 million in 1993. Revenues from the 7 per cent gross sales royalty interest and 11 per cent equity interest in IOC improved to \$43 million in 1994, an increase of \$11 million from 1993 due to higher production of and prices for iron ore concentrate and pellets.

Efforts during the year were directed at extending the term of existing sales contracts for the mine in order to increase the certainty of Norcen's royalty revenue stream and hence its value. An agreement in principle was reached by year end to extend existing sales contracts a further 5 years to 2004. A provision of \$15 million was taken in 1994 to adjust the carried value of Norcen's investment to reflect the value suggested by recent IOC shareholder transactions.

The sales of a substantial portion of the Company's cogeneration projects and the Polaris zinc mine net profits interest were completed during 1994 resulting in proceeds of \$51 million and \$59 million and gains after taxes and minority interest realized of \$8 million and \$5 million respectively. An agreement in principle to sell the remaining cogeneration interests has been entered into subject to the receipt of regulatory approval which is not expected to be received until the second half of 1995.

# CONSOLIDATED BALANCE SHEET

As at December 31

(millions of dollars)

1994

1993

## ASSETS

### CURRENT ASSETS

Cash	\$ 11.1	\$ 51.5
Accounts receivable	346.5	309.9
Inventories	60.6	68.6
Total current assets	418.2	430.0
INVESTMENTS (Note 4)	137.4	365.7
PROPERTY, PLANT AND EQUIPMENT (Note 5)	3,025.7	3,281.4
OTHER ASSETS (Note 6)	98.1	137.4
	<u>\$ 3,679.4</u>	<u>\$ 4,214.5</u>

## LIABILITIES AND SHAREHOLDERS' EQUITY

### CURRENT LIABILITIES

Current notes payable	\$ 170.0	\$ 104.4
Accounts payable and accrued charges	273.0	276.7
Income and other taxes	22.5	22.6
Current maturities on long-term debt	14.5	17.8
Total current liabilities	480.0	421.5
LONG-TERM DEBT (Note 7)	958.2	1,022.5
CONVERTIBLE SUBORDINATED DEBENTURES (Note 8)	399.9	399.9
DEFERRED INCOME TAXES, REVENUE AND OTHER PROVISIONS (Note 9)	563.8	601.8
MINORITY INTERESTS IN SUBSIDIARIES	35.2	365.5
SHAREHOLDERS' EQUITY (Note 10)	1,242.3	1,403.3
	<u>\$ 3,679.4</u>	<u>\$ 4,214.5</u>

Approved by the Board:



David W. Kerr  
Director



John R. Yarnell  
Director

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF EARNINGS

Years ended December 31

(millions of dollars except per share amounts)

	1994	1993	1992
SALES	\$ 1,297.4	\$ 1,138.0	\$ 987.6
INVESTMENT AND INTEREST INCOME	17.3	19.1	11.3
	<u>1,314.7</u>	<u>1,157.1</u>	<u>998.9</u>
COSTS AND EXPENSES			
Cost of sales and administration	769.8	704.2	590.3
Depreciation, depletion and amortization	349.6	306.3	223.8
Interest and other financial expense	119.2	104.0	94.3
Income taxes (recovery) (Note 11)	(12.3)	20.2	40.7
Minority interests in subsidiaries	10.5	(7.4)	1.2
Write-downs, provisions and gains on asset sales (Note 2)	191.9	5.4	9.8
	<u>1,428.7</u>	<u>1,132.7</u>	<u>960.1</u>
NET EARNINGS (LOSS)	(114.0)	24.4	38.8
DIVIDENDS ON PREFERENCE SHARES	0.8	1.7	6.9
EARNINGS (LOSS) APPLICABLE TO COMMON SHARES	<u>\$ (114.8)</u>	<u>\$ 22.7</u>	<u>\$ 31.9</u>
EARNINGS (LOSS) PER COMMON SHARE (Note 10 (iii))	\$ (1.39)	\$ 0.29	\$ 0.49

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31

(millions of dollars)

	1994	1993	1992
BALANCE AT BEGINNING OF YEAR	\$ 580.4	\$ 605.2	\$ 612.4
Net earnings (loss)	(114.0)	24.4	38.8
	<u>466.4</u>	<u>629.6</u>	<u>651.2</u>
Dividends (Note 10)	50.3	49.2	46.0
BALANCE AT END OF YEAR	<u>\$ 416.1</u>	<u>\$ 580.4</u>	<u>\$ 605.2</u>

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31

(millions of dollars)

	1994	1993	1992
<b>OPERATING ACTIVITIES</b>			
Net earnings (loss)	\$ (114.0)	\$ 24.4	\$ 38.8
Charges (credits) not affecting cash:			
Asset write-downs, provisions, net of gains on asset sales	194.3	43.6	16.3
Depreciation, depletion and amortization	349.6	306.3	223.8
Amortization of deferred charges	23.5	20.0	6.9
Deferred income taxes (recoveries)	(70.8)	(19.2)	26.9
Minority interest and other	11.9	(7.0)	4.1
Cash flow	394.5	368.1	316.8
Deferred gas revenues	(0.9)	(2.5)	(3.6)
Increase in working capital*	(28.4)	(13.6)	(28.8)
Cash flow from operating activities	365.2	352.0	284.4
<b>INVESTING ACTIVITIES</b>			
Expenditures on property, plant and equipment	(382.0)	(304.4)	(169.9)
Property dispositions (acquisitions), net	70.9	(74.6)	(47.5)
Acquisition of North Canadian Oils Limited (Note 3)	(318.0)	(259.4)	
Sale (purchase) of investments	246.0	49.0	(0.6)
Industrial Gas System accrued sale proceeds	80.2		
Site restoration and other	(4.9)	(5.6)	(2.7)
	(307.8)	(595.0)	(220.7)
<b>FINANCING ACTIVITIES</b>			
Long-term debt	(112.5)	18.1	197.9
Convertible subordinated debentures			(143.4)
Issue of common shares (Note 10)	3.9	217.8	146.2
Redemption of preference shares (Note 10)	(0.2)	(100.1)	(89.9)
Issue of shares by subsidiaries	0.1	19.9	
Dividends	(50.3)	(49.2)	(46.0)
Dividends paid to minority shareholders	(4.4)	(7.3)	
	(163.4)	99.2	64.8
CHANGE IN CASH	(106.0)	(143.8)	128.5
CASH AT BEGINNING OF YEAR	(52.9)	90.9	(37.6)
CASH AT END OF YEAR*	\$ (158.9)	\$ (52.9)	\$ 90.9

\* Cash is comprised of cash and short-term deposits less current notes payable.

Working Capital excludes cash, current notes payable and current maturities on long term debt.

## MANAGEMENT'S REPORT

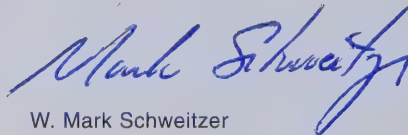
The accompanying consolidated financial statements of Norcen Energy Resources Limited ("Norcen") and all information in the Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and include some amounts that are based on management's best estimates. Financial and operating data elsewhere in the Annual Report is consistent with the information contained in the financial statements.

In fulfilling their responsibilities, management of Norcen and its subsidiaries maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are timely, accurate and reliable for preparation of the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this Annual Report principally through its Audit Committee, consisting solely of non-executive directors. The Audit Committee meets periodically with management and with the external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. External auditors have full access to the Audit Committee, with and without the presence of management. The financial statements have been audited by KPMG Peat Marwick Thorne, Chartered Accountants and their report follows.



Grant D. Billing  
President and Chief Executive Officer  
February 16, 1995



W. Mark Schweitzer  
Vice-President, Finance and Chief Financial Officer

## AUDITORS' REPORT

To the Shareholders of Norcen Energy Resources Limited

We have audited the consolidated balance sheet of Norcen Energy Resources Limited as at December 31, 1994 and 1993 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Calgary, Canada  
February 3, 1995

Chartered Accountants

## 1. ACCOUNTING POLICIES

### **BASIS OF PRESENTATION**

The accompanying consolidated financial statements have been prepared according to Canadian generally accepted accounting principles applied on a consistent basis and include the accounts of Norcen (the "Company") and all of its subsidiaries (together "Norcen"). Norcen's business is organized into three operational segments: oil and gas, propane marketing, and minerals and other. Certain prior years' comparative figures have been reclassified for comparative purposes. Purchases of gas from third parties have been netted against sales, consistent with Norcen's curtailment of its third party gas marketing activity.

### **FOREIGN CURRENCY TRANSLATION**

Self-sustaining foreign operations are translated using the current rate method, under which all assets and liabilities are translated at the exchange rate prevailing at the balance sheet date, and revenues and expenses at average rates of exchange during the period. Resulting gains or losses are deferred and shown as a separate category of shareholders' equity (note 10 (vi)).

Foreign-denominated monetary assets and liabilities of Canadian operations and integrated foreign operations are translated at the exchange rate prevailing at the period end, and revenues and expenses (other than depletion) at average rates of exchange during the period. Non monetary assets and liabilities are translated at the rates in effect at the dates of acquisition. Exchange gains and losses arising on translation of current monetary assets and liabilities are included in earnings. Exchange gains and losses arising on translation of long term monetary assets and liabilities which are not associated with self-sustaining operations are deferred and amortized over their remaining term.

### **INVENTORIES**

Inventories are valued at the lower of cost, applied on a first-in first-out basis, and market value determined on the basis of replacement cost or net realizable value as appropriate.

### **PROPERTY, PLANT AND EQUIPMENT**

#### **OIL AND GAS**

Oil and gas properties and production equipment, in accordance with the full cost method of accounting, include expenditures related to the acquisition, exploration and development of oil and gas reserves, whether or not potentially productive. These costs are depleted and depreciated, on a country-by-country cost centre basis, using the unit of production method based on total estimated proved recoverable reserves. Natural gas reserves and production are converted to equivalent barrels of crude oil based on relative energy content. Proceeds on sale of property and equipment are credited to asset costs.

Capitalized costs in each cost centre are limited to estimated undiscounted future net revenues (based on year-end prices) plus the net cost of major development projects and unproved properties. Total capitalized costs are limited to the aggregate of the foregoing less future interest costs, future site restoration costs, administrative costs and income taxes attributed to oil and gas operations.

Certain oil and gas related facilities and equipment are recorded at cost and depreciated over their useful service life, estimated at 30 years, using the straight line method.

A provision for future site restoration costs is accrued by a charge against income using the unit of production method.

#### **PROPANE MARKETING**

Propane marketing equipment is recorded at cost and depreciated over the estimated useful service life using the straight line method. Estimated useful life of major classes of equipment are:

Tanks and cylinders	20 years
Truck chassis	7 years
Truck tank bodies	10 years

Goodwill is amortized over 20 years (40 years prior to January 1, 1993) and non-compete agreements are amortized over the terms of the agreements.

#### **MINING**

Mining properties are recorded at cost less impairment and amortized against production. Effective January 1, 1993, the period of amortization for Norcen's equity and royalty investment in the Iron Ore Company of Canada ("IOC") was reduced to 20 years.

#### **DEFERRED REVENUES AND OTHER LIABILITIES**

Deferred revenues and other include payments received under prepaid gas contracts, long-term retirement liabilities and the accrued liability for future site restoration costs. Deferred gas revenues and prepaid gas contracts are included in revenue as the gas to which the payments relate is delivered.

## **2. WRITE-DOWNS, PROVISIONS AND GAINS ON ASSET SALES**

	Year Ended December 31		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
Write-down of oil and gas assets			
International	\$ 95.2	\$ 43.6	\$ 6.3
United States	130.5		
Write-down of IOC mining assets	15.0		
Investment provisions			10.0
Corporate restructuring provision	45.5		
Gain on asset sales	(82.9)	(20.0)	(6.5)
Gas contract settlement gains, net of provisions	(11.4)	(18.2)	
	<u>\$ 191.9</u>	<u>\$ 5.4</u>	<u>\$ 9.8</u>

The net income effect of these write-downs, provisions and gains was \$137.3 million (\$5.0 million in 1993; \$9.9 million in 1992) after deduction of minority interest of \$17.6 million (nil in 1993 and 1992) and income tax recoveries of \$72.2 million (\$0.4 million in 1993; \$0.1 million in 1992).

### 3. ACQUISITION OF NORTH CANADIAN OILS LIMITED ("NCO")

On April 1, 1993, Norcen acquired from Noranda Inc. ("Noranda"), the Company's major shareholder, and Daal Energy Holdings, Inc., an associate of Noranda, their combined 50.4 per cent common share interest (18,459,669 shares) in NCO through a share exchange in which 0.67 shares were exchanged for each NCO share. The total purchase price of \$219.7 million was based on 12,367,978 shares issued at the April 1, 1993 price of \$17.125 plus capitalized acquisition costs and cash overdrafts assumed. In 1994, Norcen acquired the remaining outstanding common shares of NCO for cash consideration of \$260.2 million. In addition, the Company acquired \$57.8 million and \$39.7 million of NCO's preferred shares, in 1994 and 1993 respectively, at par for cash consideration, representing all the outstanding preferred shares of NCO. The acquisitions were accounted for by the purchase method and are summarized as follows:

Net assets acquired, at fair values:	Year Ended December 31	
	1994	1993
Investments		\$ 231.1
Property, plant and equipment	\$ (8.6)	682.8
Working capital deficiency		(19.6)
Long term debt		(182.3)
Deferred revenue and other		(45.7)
Deferred income taxes		(67.0)
Minority interest	268.8	(379.6)
Common shares acquired	260.2	219.7
Preferred shares acquired	57.8	39.7
Total acquisition cost	\$ 318.0	\$ 259.4

The results of operation of this acquisition have been included in the consolidated statement of earnings from April 1, 1993.

### 4. INVESTMENTS (AT COST)

	December 31	
	1994	1993
Brascan Limited, preference shares (i) (iii)	\$ 65.0	\$ 65.0
Mico Investments Ltd., common shares (i) (iii)	67.7	67.7
Varitech Investors Corporation, preferred shares (i) (ii) (iii)		27.5
Brascade Resources Inc., preference shares (i) (ii) (iii)		40.9
Trilon Financial Corporation, preference shares (i) (ii) (iii)		11.1
American Express Canada Ltd., note receivable (iii)		65.0
Polaris Mine royalty interest		50.1
Power cogeneration projects equity interest	0.7	44.1
Notes receivable from directors, officers and employees	5.1	5.2
Other investments	5.0	3.7
	143.5	380.3
Provision for loss on investments	(6.1)	(14.6)
	\$ 137.4	\$ 365.7

- (i) Related company.
- (ii) These shares are traded on the Toronto Stock Exchange and had an aggregate value of \$71.1 million at December 31, 1993.
- (iii) Dividends or interest paid on these investments are based on the prime rate of interest as established by various major Canadian banks from time to time.

## 5. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas	Propane Marketing	Mineral Resources	Total
<b>December 31, 1994</b>				
Cost	<b>\$5,258.5</b>	<b>\$ 485.6</b>	<b>\$ 243.3</b>	<b>\$5,987.4</b>
Accumulated depreciation and depletion	<b>2,702.2</b>	<b>172.9</b>	<b>86.6</b>	<b>2,961.7</b>
Net	<b><u>\$2,556.3</u></b>	<b><u>\$ 312.7</u></b>	<b><u>\$ 156.7</u></b>	<b><u>\$3,025.7</u></b>
<b>December 31, 1993</b>				
Cost	\$4,920.2	\$ 442.0	\$ 243.4	\$5,605.6
Accumulated depreciation and depletion	2,122.8	139.9	61.5	2,324.2
Net	<b><u>\$2,797.4</u></b>	<b><u>\$ 302.1</u></b>	<b><u>\$ 181.9</u></b>	<b><u>\$3,281.4</u></b>

Mineral resources property, plant and equipment has been restated to reflect the inclusion of Norcen's equity investment in the Iron Ore Company of Canada.

Pursuant to a 20 year development contract in Venezuela which was entered into in 1993, Norcen has a remaining commitment to spend US \$51 million of capital and operating costs over the next two years.

Expenditures relating to undeveloped or unevaluated oil and gas properties excluded from the depletion base are as follows:

	United States	International	Total
<b>1994</b>	<b>\$ 25.0</b>	<b>\$ 50.9</b>	<b>\$ 75.9</b>
1993	\$ 8.1	\$ 83.2	\$ 91.3

Administrative overhead expenditures of \$7.4 million in 1994 (\$9.9 million in 1993; \$9.6 million in 1992) directly related to exploration activities have been capitalized.

## 6. OTHER ASSETS (NET OF AMORTIZATION)

	December 31	
	1994	1993
Propane Marketing goodwill and non-compete agreements	\$ 86.5	\$ 75.9
Financing expense	3.5	3.6
Deferred foreign exchange losses (Note 10(vi))	8.1	57.9
	<u>\$ 98.1</u>	<u>\$ 137.4</u>

## 7. LONG-TERM DEBT

	Average Interest Rate (i)	December 31, 1994	Principal Repayments at December 31, 1994						December 31, 1993
			1995	1996	1997	1998	1999	After	
<i>(millions of dollars)</i>									
Notes payable and revolving									
term bank credits	5.79%	\$ 101.1	—	—	—	101.1	—	—	\$ 204.0
Term bank credits	7.39	813.6	—	60.8	311.0	140.3	119.2	182.3	761.3
9.38% secured note	9.38	49.9	11.4	8.5	6.7	5.9	6.7	10.7	59.8
Capital lease obligations and other	9.55	8.1	3.1	1.9	0.9	0.6	0.6	1.0	15.2
	7.26%	972.7	14.5	71.2	318.6	247.9	126.5	194.0	1,040.3
Current maturities		14.5							17.8
Long-term debt		<u>\$ 958.2</u>							<u>\$1,022.5</u>

(i) As at December 31, 1994

Notes payable include short term money market borrowings supported by revolving term loan agreements that are structured to provide Norcen the right to borrow at floating rates and repay these amounts in 1998.

Term bank credits include borrowings of US\$580 million (1993 - US\$575 million) bearing interest at floating rates tied to quoted market rates offered to prime banks in the London interbank market. Floating rate interest obligations on US\$313 million principal amount of debt has been swapped into fixed rates ranging from 6.8% to 8.9% through arrangements made with AA rated banks for terms expiring from August 1995 to April 1999.

The 9.38% secured note represents US\$35.5 million (1993 - US\$45.1 million) principal amount secured against certain oil and gas producing properties located in the Gulf of Mexico which were acquired on December 30, 1993.

Interest rates on capital lease obligations and other long term indebtedness vary with Canadian prime bank rates.

Interest on long-term debt and convertible debentures was \$95.0 million in 1994 (\$88.6 million in 1993; \$83.2 million in 1992).

## 8. CONVERTIBLE SUBORDINATED DEBENTURES

	December 31	
	<u>1994</u>	<u>1993</u>
Series B (i)	\$ 149.9	\$ 149.9
8 Percent (ii)	<u>250.0</u>	<u>250.0</u>
	<u>\$ 399.9</u>	<u>\$ 399.9</u>

- (i) The Adjustable Rate Convertible Subordinated Debentures, Series B, due March 30, 2007, pay 5% interest per annum subject to upward adjustment if the cumulative Common Share dividend in the previous six months exceeds \$0.50 per share, and are convertible at the holder's option into Common Shares on or before the earlier of March 29, 2007 and the last business day prior to redemption, at an initial conversion price of \$25.00 per share. Norcen may, at its option, fix the interest rate at 6% per annum and increase the conversion price to \$27.75 per share.
- (ii) The 8% Convertible Subordinated Debentures, due December 6, 1999, are convertible at the holder's option into Common Shares at any time before December 5, 1999, at an initial conversion price of \$25.00 per share.
- (iii) At the option of the Company, if the Company is not in default on any of its indebtedness, the payment on maturity of the principal outstanding on each of the 8% and Series B Convertible Subordinated Debentures may be made by the delivery of that number of Common Shares of the Company, obtained by dividing such outstanding principal amount by the average closing trading price of the Common Shares on The Toronto Stock Exchange for the 10 days prior to the maturity date. The Series B and the 8% convertible debentures are direct unsecured obligations of Norcen, subordinate to other indebtedness of Norcen for borrowed money, but ranking equally with all other subordinated indebtedness and are redeemable, without restriction, at the principal amount plus accrued interest, if any.
- (iv) Of the Convertible Subordinated Debentures, \$60 million of Series B and all of the 8% are held by Noranda Inc., a major shareholder of the Company.

## 9. DEFERRED INCOME TAXES, REVENUE AND OTHER PROVISIONS

	December 31	
	<u>1994</u>	<u>1993</u>
Deferred income taxes	\$ 467.6	\$ 538.3
Provision for future site restoration costs	30.2	21.2
Deferred revenue and other provisions	<u>66.0</u>	<u>42.3</u>
	<u>\$ 563.8</u>	<u>\$ 601.8</u>

## 10. SHAREHOLDERS' EQUITY

### Capital Stock

#### Authorized:

- First Preference Shares, an unlimited number
- Junior Preference Shares, an unlimited number
- Common Shares, an unlimited number

#### Issued:

	December 31		Dividends		
	1994	1993	1994	1993	1992
First Preference Shares Series A (i)	\$ 9.8	\$ 10.0	\$ 0.8	\$ 0.8	\$ 2.0
First Preference Shares Series B (ii)				0.9	4.9
Common shares (iii) (iv) (v)	816.8	812.9	49.5	47.5	39.1
Retained Earnings (vii)	416.1	580.4			
Currency Translation Account (vi)	(0.4)				
	<u>\$1,242.3</u>	<u>\$1,403.3</u>	<u>\$ 50.3</u>	<u>\$ 49.2</u>	<u>\$ 46.0</u>

#### (i) First Preference Shares Series A

The Company had 393,242 (399,342 at December 31, 1993) First Preference Series A preferred shares outstanding at December 31, 1994 which pay a cumulative cash fixed dividend of 8.12% or \$2.03 per annum. The Company may redeem these shares, in whole or in part, at a price of \$25.50 per share such price declining by \$0.25 per annum until March 1, 1996, after which they are redeemable at the issue price of \$25.00 per share. During 1994, 6,100 (1993 - 4,600; 1992 - 3,596,058) shares were purchased by the Company and cancelled.

#### (ii) First Preference Shares Series B

On March 12, 1993, the Company redeemed all outstanding First Preference Series B shares at par for cash consideration of \$100 million. These shares paid a cumulative cash dividend equal to 72 percent of the one month Canadian Bankers Acceptance Rate.

#### (iii) Common Shares

	Shares (in 000's)	Amount
December 31, 1991	60,100	\$ 448.9
Employee savings and stock option plans	305	6.0
Conversions and exchanges	9,248	140.2
December 31, 1992	69,653	595.1
Employee savings and stock option plans	334	6.0
Exchange for NCO Common Shares	12,368	211.8
Conversions and exchanges	2	
December 31, 1993	82,357	812.9
Employee savings and stock option plans	246	3.9
December 31, 1994	<u>82,603</u>	<u>\$ 816.8</u>

Earnings per share have been calculated using the weighted average number of shares outstanding during the year (82.5 million in 1994; 79.1 million in 1993; 65.4 million in 1992).

(iv) Stock Options

The Company has an Incentive Stock Option Plan ("ISOP") through which market growth options are issued to certain employees of the Company. Under the ISOP, the number of common shares issued is equal to the growth in value of the options, represented by the market price less the exercise price times the number of options exercised, divided by the current market price of the common share. At December 31, 1994, there were 2,614,500 options outstanding under this plan exercisable at prices varying from \$15.81 to \$19.29 per share for periods up to 1999.

- (v) At the annual and special meeting on April 20, 1993, the shareholders approved the amendments of the articles of the Company to change Multiple and Subordinate Voting Ordinary Shares into Common Shares on a one for one basis.

(vi) Currency Translation Account ("CTA")

During the fourth quarter of 1994, the Company conducted an extensive strategic review of its foreign operations, including the assessment of the foreign currency exposure related to its investment in foreign operations. As a result of this review, the Company has determined that its significant foreign operations are self-sustaining and has adopted the current rate translation method effective December 31, 1994 for those operations. The translation of the balance sheets of self-sustaining operations at current rates resulted in a credit to the CTA of \$76.4 million, offset by the transfer of deferred foreign exchange losses of \$76.8 million to the CTA, which were associated with U.S. dollar denominated debt related to the financing of self-sustaining international operations.

(vii) Dividend Restrictions

Covenants respecting certain of Norcen's non-convertible long-term debt impose a limit on dividend payments by Norcen, such limit being related in part to consolidated net earnings, as defined. Under the most restrictive of these covenants, retained earnings in the amount of \$86 million were available for the payment of dividends at December 31, 1994.

## 11. INCOME TAXES

The provision for income taxes in the consolidated statement of earnings varies from the amounts that would be computed by applying the Canadian federal statutory rate, including surtax, to earnings before income taxes and minority interests for the following reasons:

	Year ended December 31		
	1994	1993	1992
Earnings (loss) before income taxes and minority interests	<u>\$ (115.8)</u>	<u>\$ 37.3</u>	<u>\$ 80.7</u>
Canadian federal statutory rate of income tax	<u>38.8%</u>	<u>38.8%</u>	<u>38.8%</u>
Computed tax expense (recovery)	<u>\$ (45.0)</u>	<u>\$ 14.5</u>	<u>\$ 31.4</u>
Increase (decrease) in income taxes resulting from:			
Non-deductible depletion, write-downs and losses	48.9	14.8	14.0
Non-taxable dividend income	(5.8)	(4.0)	(4.9)
Non-deductible crown payments less federal resource allowance	6.8		0.6
Large Corporations Tax	2.9	3.1	2.7
Capital loss carryback and prior year recoveries	(8.3)	(5.7)	(5.7)
Non-taxable portion of gains on disposal	(13.4)	(2.9)	(2.5)
Other items, net	1.6	0.4	5.1
Actual income tax expense (recovery)	<u>\$ (12.3)</u>	<u>\$ 20.2</u>	<u>\$ 40.7</u>
Effective tax rate	<u>10.7%</u>	<u>54.1%</u>	<u>50.4%</u>

At December 31, 1994, the Company had United States tax loss carryforwards of approximately U.S.\$123 million (U.S. \$144 million in 1993; U.S.\$133 million in 1992), the tax benefits of which are not recognized in the financial statements. These loss carryforwards expire at various times between December 31, 1997 and December 31, 2007.

## 12. PENSION PLAN

Norcen and its wholly-owned subsidiaries, Superior Propane Inc. and Norcen Explorer, Inc., have defined benefit pension plans covering most employees. The benefits provided by these plans are based on the employee's years of service and on the highest average earnings for a specified number of consecutive years. The Company makes annual contributions to the plans as required based on the results of actuarial valuations. The plan assets consist primarily of equity and fixed income securities. Projected benefit obligations and the expected return on plan assets are based on an assumed rate of 6.5 per cent. Projected pay increases reflect an assumed rate of 5 per cent.

The funded status of the plans and the liability as recognized in the Balance Sheet at December 31, 1994 and 1993, were:

	<u>1994</u>	<u>1993</u>
Accumulated benefit obligation including vested amounts of \$92.3 million (\$90.0 million in 1993)	<b>\$ 93.5</b>	\$ 91.8
Unearned benefit obligation related to projected pay increases	<b>37.5</b>	34.5
Projected benefit obligation	<b>131.0</b>	126.3
Plan assets, at fair value	<b>147.3</b>	154.5
Excess of plan assets over projected benefit obligation	<b>16.3</b>	28.2
Net accrued balance sheet pension liability	<b>1.5</b>	4.2
Excess of plan surplus over balance sheet liability	<b>\$ 17.8</b>	\$ 32.4

## 13. OPERATING LEASES

Future minimum lease payments under operating lease obligations total \$55.8 million. Payments required under these leases for each of the next five years are as follows:

1995 - \$ 11.8 million
1996 - \$ 10.8 million
1997 - \$ 8.2 million
1998 - \$ 7.4 million
1999 - \$ 6.6 million

## 14. RELATED PARTY TRANSACTIONS

Dividends or interest income from investments includes dividends received from related companies of \$17.3 million in 1994 (\$10.2 million in 1993; \$8.4 million in 1992).

During 1994, the Varitech Investors Corporation preference shares and the American Express Canada Ltd. note receivable were sold at full carried cost for cash to related parties and the Brascade Resources Inc. and Trilon Financial Corporation preference shares were sold at market values to related parties for cash consideration of \$43.6 million. During 1993, \$36.3 million of Mico Investments Ltd. common shares were sold at full carried cost for cash to Noranda.

During 1994, the Company purchased \$25.0 million (\$20.7 million in 1993) of NCO preferred shares at par value for cash consideration from related parties.

## 15. SEGMENTED INFORMATION

### A. Industry Segments

	Year ended December 31, 1994				
	Oil and Gas	Propane Marketing	Minerals & Other	Corporate & Inter- Segment	Total
Sales	\$ 708.6	\$ 548.7	\$ 45.2	\$ (5.1)	\$ 1,297.4
Less:					
Operating costs	181.4	172.0	7.9		361.3
Administration	66.4	22.8			89.2
Product purchases	32.4	292.0		(5.1)	319.3
Depreciation, depletion and amortization	305.0	33.1	11.5		349.6
Income tax	78.1	12.8	10.6		101.5
Operating earnings	45.3	16.0	15.2	—	76.5
Investment income				17.3	17.3
Interest and other financial expense				(119.2)	(119.2)
Write-downs, provisions and gains on asset sales	(204.8)	(9.2)	22.1		(191.9)
Income tax recovery (expense)	74.6	3.8	(6.1)	41.5	113.8
Minority interests				(10.5)	(10.5)
Net earnings (loss)	\$ (84.9)	\$ 10.6	\$ 31.2	\$ (70.9)	\$ (114.0)
Capital expenditures	\$ 602.2	\$ 26.9	\$ —	\$ —	\$ 629.1
Identifiable assets	2,813.8	537.8	168.3	159.5	3,679.4
Cash flow	361.1	45.9	26.7	(39.2)	394.5

Year ended December 31, 1993					
	Oil and Gas	Propane Marketing	Minerals & Other	Corporate & Inter- Segment	Total
Sales	\$ 606.0	\$ 500.6	\$ 39.4	\$ (8.0)	\$ 1,138.0
Less:					
Operating costs	162.2	154.0	8.1		324.3
Administration	65.9	21.6	3.4		90.9
Product purchases	22.3	274.7		(8.0)	289.0
Depreciation, depletion and amortization	259.6	32.0	14.7		306.3
Income tax	42.6	10.6	9.3		62.5
Operating earnings	53.4	7.7	3.9	—	65.0
Investment income				19.1	19.1
Interest and other financial expense				(104.0)	(104.0)
Write-downs, provisions and gains on asset sales	(5.4)				(5.4)
Income tax recovery	0.4			41.9	42.3
Minority interests				7.4	7.4
Net earnings (loss)	\$ 48.4	\$ 7.7	\$ 3.9	\$ (35.6)	\$ 24.4
Capital expenditures	\$ 577.0	\$ 64.9	\$ (3.5)	\$ —	\$ 638.4
Identifiable assets	3,007.6	524.8	297.5	384.6	4,214.5
Cash flow	331.2	39.5	20.3	(22.9)	368.1

Year ended December 31, 1992					
	Oil and Gas	Propane Marketing	Minerals & Other	Corporate & Inter- Segment	Total
Sales	\$ 508.6	\$ 452.4	\$ 36.1	\$ (9.5)	\$ 987.6
Less:					
Operating costs	123.5	146.7	6.2		276.4
Administration	43.6	22.1	0.1		65.8
Product purchases	22.7	234.9		(9.5)	248.1
Depreciation, depletion and amortization	187.6	31.2	5.0		223.8
Income tax	60.3	8.3	8.6		77.2
Operating earnings	70.9	9.2	16.2	—	96.3
Investment income				11.3	11.3
Interest and other financial expense				(94.3)	(94.3)
Write-downs and gains on asset sales	0.2			(10.0)	(9.8)
Income tax recovery (expense)	(0.1)			36.6	36.5
Minority interests				(1.2)	(1.2)
Net earnings (loss)	\$ 71.0	\$ 9.2	\$ 16.2	\$ (57.6)	\$ 38.8
Capital expenditures	\$ 194.3	\$ 23.1	\$ —	\$ —	\$ 217.4
Identifiable assets	2,187.0	480.2	202.4	331.3	3,200.9
Cash flow	292.1	40.1	21.3	(36.7)	316.8

## B. Financial data by geographic segment

	Canada	United States	International	Total Worldwide
<b>1994</b>				
Sales	\$ 962.2	\$ 272.5	\$ 62.7	\$ 1,297.4
Operating earnings (loss)	82.0	(1.8)	(3.7)	76.5
Capital expenditures	488.6	59.3	81.2	629.1
Identifiable assets	2,766.0	720.4	193.0	3,679.4
<b>1993</b>				
Sales	\$ 885.6	\$ 203.8	\$ 48.6	\$ 1,138.0
Operating earnings (loss)	81.8	(17.5)	0.7	65.0
Capital expenditures	427.3	181.7	29.4	638.4
Identifiable assets	3,167.4	859.2	187.9	4,214.5
<b>1992</b>				
Sales	\$ 784.7	\$ 147.1	\$ 55.8	\$ 987.6
Operating earnings (loss)	99.4	(10.8)	7.7	96.3
Capital expenditures	45.5	85.8	86.1	217.4
Identifiable assets	2,380.1	605.2	215.6	3,200.9

SELECTED QUARTERLY FINANCIAL DATA

	1994				1993			
	CASH FLOW		EARNINGS (LOSS)		CASH FLOW		EARNINGS (LOSS)	
	\$/MILLIONS	\$/SHARE	\$/MILLION	\$/SHARE	\$/MILLION	\$/SHARE	\$/MILLION	\$/SHARE
FIRST QUARTER	\$106.7	\$1.29	\$ 15.4	\$ 0.18	\$ 90.7	\$1.28	\$ 24.1	\$ 0.33
SECOND QUARTER	\$ 86.4	\$1.05	\$ 13.8	\$ 0.17	\$106.7	\$1.30	\$ 0.7	\$ 0.01
THIRD QUARTER	\$ 90.2	\$1.09	\$ 8.6	\$ 0.10	\$ 84.5	\$1.03	\$ 5.0	\$ 0.06
FOURTH QUARTER	\$111.2	\$1.34	\$ (151.8)	\$ (1.84)	\$ 86.2	\$1.05	\$ (5.4)	\$ (0.07)

FINANCIAL RATIOS

(millions of dollars except ratios)

	1994	1993	1992	1991	1990
TOTAL ASSETS	\$3,679.4	\$4,214.5	\$3,200.9	\$3,050.3	\$3,002.9
LONG TERM DEBT, DEBENTURES AND PREFERRED SHARES	\$1,367.9	\$1,432.4	\$1,253.4	\$1,285.2	\$1,256.2
COMMON EQUITY	\$1,232.5	\$1,393.3	\$1,200.3	\$1,061.3	\$1,055.7
INTEREST ON LONG TERM DEBT PLUS PREFERRED SHARE DIVIDENDS	\$ 95.8	\$ 90.3	\$ 90.1	\$ 97.8	\$ 93.4
CASH FLOW AVAILABLE FOR INTEREST					
Cash flow before interest					
expense, net of tax	\$ 447.7	\$ 417.7	\$ 363.4	\$ 325.7	\$ 398.9
Less overhead capitalized, net of tax	4.1	5.5	5.4	6.8	5.9
	\$ 443.6	\$ 412.2	\$ 358.0	\$ 318.9	\$ 393.0
ASSETS TO COMMON EQUITY	3.0:1	3.0:1	2.7:1	2.9:1	2.8:1
DEBT TO COMMON EQUITY	1.1:1	1.0:1	1.0:1	1.2:1	1.2:1
INTEREST COVERAGE					
Cash flow available for interest					
Interest expense and preferred share dividends	4.6	4.6	4.0	3.3	4.2
DEBT COVERAGE					
Long term debt, debentures and preferred shares					
Cash flow available for interest	3.1	3.5	3.5	4.0	3.2

# FIVE YEAR SUMMARY

Years ended December 31

(millions of dollars except per share items)

	1994	1993	1992	1991	1990
<b>SALES AND OTHER REVENUES</b>	<b>\$1,314.7</b>	<b>\$1,157.1</b>	<b>\$ 998.9</b>	<b>\$ 971.4</b>	<b>\$1,038.0</b>
<b>COSTS AND EXPENSES</b>					
Cost of sales and administration	769.8	704.2	590.3	586.0	546.9
Depreciation, depletion and amortization	349.6	306.3	223.8	211.3	191.5
Interest and other financial expense	119.2	104.0	94.3	80.6	73.6
Income taxes	(12.3)	20.2	40.7	49.1	95.2
Minority interests	10.5	(7.4)	1.2	0.3	1.6
Write-downs, provisions and gains on asset sales	191.9	5.4	9.8		
	<u>1,428.7</u>	<u>1,132.7</u>	<u>960.1</u>	<u>927.3</u>	<u>908.8</u>
<b>NET EARNINGS</b>	<b>\$ (114.0)</b>	<b>\$ 24.4</b>	<b>\$ 38.8</b>	<b>\$ 44.1</b>	<b>\$ 129.2</b>
<b>CASH GENERATED FROM OPERATIONS</b>	<b>\$ 394.5</b>	<b>\$ 368.1</b>	<b>\$ 316.8</b>	<b>\$ 279.2</b>	<b>\$ 356.1</b>
<b>PER COMMON SHARE</b>					
Earnings - basic	\$ (1.39)	\$ 0.29	\$ 0.49	\$ 0.49	\$ 1.90
Cash flow- basic	\$ 4.77	\$ 4.63	\$ 4.74	\$ 4.41	\$ 5.72
Dividends paid	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.55
<b>CAPITAL EXPENDITURES AND ACQUISITIONS (NET)</b>					
Oil and gas	\$ 602.2	\$ 577.0	\$ 194.3	\$ 268.1	\$ 267.7
Propane marketing	26.9	64.9	23.1	15.6	203.5
Minerals		(3.5)			
	<u>\$ 629.1</u>	<u>\$ 638.4</u>	<u>\$ 217.4</u>	<u>\$ 283.7</u>	<u>\$ 471.2</u>
<b>OIL AND GAS OPERATIONS</b>					
Production (before deducting royalties)					
Oil and NGL (mb/d)					
Canada	51.0	47.8	45.1	44.5	44.9
United States	4.7	3.3	3.9	2.5	1.4
International	13.0	8.4	7.4	7.5	10.5
	<u>68.7</u>	<u>59.5</u>	<u>56.4</u>	<u>54.5</u>	<u>56.8</u>
Natural gas (mmcf/d)					
Canada	447	413	243	221	223
United States	89	54	37	30	24
International	18	14	11		
	<u>554</u>	<u>481</u>	<u>291</u>	<u>251</u>	<u>247</u>
Proved plus probable reserves					
Oil and NGL (mmbbls)	254	301	245	240	219
Natural gas (bcf)	2,362	2,644	1,897	1,922	1,795
Land holdings (millions of acres)					
Gross	31	42	50	43	31
Net	13	15	17	14	10
<b>PROPANE MARKETING</b>					
Propane sales (millions of litres)	1,869	1,559	1,530	1,535	1,354
<b>EMPLOYEES - year end</b>					
Oil and gas	1,058	1,178	917	953	991
Propane Marketing	2,236	2,071	2,175	2,319	2,588

**Directors**

DOUGLAS G. BASSETT, O.C.<sup>(4)</sup>  
Toronto, Ontario  
President and  
Chief Executive Officer,  
Baton Broadcasting  
Incorporated

EDWARD G. BATTLE<sup>(1)(5)</sup>  
Calgary, Alberta  
Chairman of the Board

GRANT D. BILLING  
Calgary, Alberta  
President and  
Chief Executive Officer

G. MONTEGU BLACK<sup>(3)</sup>  
Toronto, Ontario  
Chairman and President,  
Txibanguan Limited

JACK L. COCKWELL  
Toronto, Ontario  
President and  
Chief Executive Officer  
Brascan Limited

ROBERT DESPRÉS, O.C.<sup>(3)</sup>  
Quebec City, Quebec  
Chairman of the Board  
Alliance Forest Products Inc.

HON. J. TREVOR EYTON, O.C.<sup>(5)</sup>  
Toronto, Ontario  
Chairman, Brascan Limited  
and Member of the Senate  
of Canada

DAVID W. KERR<sup>(1)(2)</sup>  
Toronto, Ontario  
President and  
Chief Executive Officer  
Noranda Inc.

HON. PETER LOUGHEED,  
P.C., C.C., Q.C.<sup>(5)</sup>  
Calgary, Alberta  
Senior Partner  
Bennett Jones Verchere

HON. W. JOHN McKEAG<sup>(2)(4)</sup>  
Winnipeg, Manitoba  
President,  
McKeag Realty Ltd.

ALFRED POWIS, O.C.<sup>(1)(3)</sup>  
Toronto, Ontario  
Chairman,  
Noranda Inc.

E. COURTNEY PRATT<sup>(3)(4)</sup>  
Toronto, Ontario  
Executive Vice President,  
Noranda Inc.

CLIFFORD A. RAE, Q.C.<sup>(1)(2)</sup>  
Calgary, Alberta  
Administrator of a private  
foundation and counsel to  
Macleod Dixon

HON. BARBARA J. SPARROW,  
P.C.<sup>(4)</sup>  
Calgary, Alberta  
President,  
Sparrow Holdings Ltd.

JOHN R. YARNELL<sup>(2)</sup>  
Toronto, Ontario  
President,  
Yarnell Companies Inc.

**Officers of  
Norcen Energy  
Resources Limited**

EDWARD G. BATTLE  
Chairman of the Board

GRANT D. BILLING  
President and  
Chief Executive Officer

DOUGLAS W. PALMER  
Senior Vice-President and  
Chief Operating Officer

W. MARK SCHWEITZER  
Vice-President, Finance and  
Chief Financial Officer

S. CRAIG BUCHANAN  
Vice-President, Operations

PETER D. JONES  
Vice-President and  
Chief Information Officer

GEORGE V. KENDA  
Vice-President, Marketing

EDWARD A. LEEW  
Vice-President, Legal and  
Secretary

GEOFFREY N. MACKEY  
Vice-President,  
Human Resources and  
Administration

J. GERHARD SCHOPP  
Vice-President, Exploitation

CLIFF M. WEST JR.  
Vice-President, Exploration

RONALD A. RONNEBERG  
Assistant Treasurer

THERESIA R. REISCH  
Assistant Secretary

**Senior Executives of  
Major Operating  
Subsidiaries**

Norcen Explorer, Inc.  
BYRON F. DYER  
President and  
Chief Executive Officer

Superior Propane Inc.  
DONALD J. EDWARDS  
President and  
Chief Executive Officer

- (1) Executive Committee
- (2) Audit Committee
- (3) Compensation Committee
- (4) Pension Committee
- (5) Nominating Committee

#### EXECUTIVE OFFICE

Norcen Energy Resources Limited  
715 Fifth Avenue Southwest  
Box 2595, Station M  
Calgary, Alberta  
T2P 4V4  
Telephone: (403) 231-0111  
Facsimile: (403) 231-0187

#### TRANSFER AGENTS AND REGISTRAR

The R-M Trust Company  
Toronto, Calgary, Montreal and Vancouver  
Mellon Securities Trust Company, New York

#### STOCK EXCHANGE LISTINGS

Norcen's Common Shares are listed for trading on the Toronto Stock Exchange and The Montreal Exchange under the symbol NCN.

#### ANNUAL INFORMATION FORM

A copy of the Company's Annual Information Form, as filed with the Canadian securities commissions is available upon request from Norcen's Corporate Communications Department.

#### ANNUAL MEETING

The annual meeting of

shareholders will be held in the Lakeview Room at The Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta, on Friday, May 5, 1995 at 2.00 p.m., local time.

Shareholders are encouraged to attend the meeting, but those unable to do so are asked to sign and return the form of proxy mailed with this report.





## NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual and special meeting of shareholders of Norcen Energy Resources Limited (the "Corporation") will be held in the Lakeview Room of the Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta, Canada on Friday, May 5, 1995 at 2:00 p.m. (Calgary time) for the following purposes:

- (1) to receive the annual report, including the consolidated financial statements of the Corporation for the year ended December 31, 1994 and the auditor's report thereon;
- (2) to elect directors;
- (3) to appoint the auditor of the Corporation;
- (4) to consider and, if thought fit, pass a special resolution approving the amendment of the Articles of the Corporation to eliminate any restrictions on business;
- (5) to consider and, if thought fit, pass a resolution approving the Corporation's amended and restated Incentive Stock Option Plan;
- (6) to consider and, if thought fit, pass a resolution ratifying and approving the grant by the Corporation of certain stock options to replace stock options previously granted; and
- (7) to transact such other business as may properly come before the meeting or any adjournment thereof.

A dissenting shareholder with respect to the special resolution referred to above is entitled to be paid the fair value of his shares in accordance with Section 190 of the Canada Business Corporations Act. A description of the right of shareholders to dissent is contained in the accompanying Management Proxy Circular, which forms a part of this Notice.

DATED at Calgary, Alberta this 15th day of March, 1995.

By order of the Board of Directors

A handwritten signature in blue ink, appearing to read "Edward A. Leew", is written over a horizontal line.

EDWARD A. LEEW  
Secretary

Shareholders who are unable to attend the meeting in person are requested to complete, date and sign the enclosed form of proxy and return it, in the envelope provided, to the Secretary of the Corporation, c/o The R-M Trust Company, P.O. Box 2517, 6th Floor, Dome Tower, Toronto Dominion Square, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 9Z9 so that it is received no later than 4:30 p.m. (Calgary time) on the second business day preceding the day of the meeting or any adjournment thereof.



## Management Proxy Circular

This Management Proxy Circular is furnished in connection with the solicitation of proxies on behalf of the management of Norcen Energy Resources Limited (the "Corporation") for use at the Annual and Special Meeting (the "Meeting") of shareholders of the Corporation called for May 5, 1995. This Management Proxy Circular and a form of proxy will be mailed to the shareholders on or about March 23, 1995. Information contained herein is given as of February 22, 1995 unless otherwise specifically stated.

All dollar amounts herein are stated in Canadian dollars.

### PROXIES

It is expected that the solicitation of proxies from the shareholders for use at the Meeting will be primarily by mail, but proxies may also be solicited personally by directors, officers or regular employees of the Corporation. The cost of this solicitation will be borne by the Corporation.

Each of the persons named in the enclosed form of proxy to represent shareholders at the Meeting is a director and/or officer of the Corporation. **Each shareholder has the right to appoint some other person to represent him at the Meeting and may exercise this right by inserting such other person's name in the blank space provided in the enclosed form of proxy or by completing another form of proxy.** A person so appointed to represent a shareholder at the Meeting need not be a shareholder.

In order to be valid for use at the Meeting or any adjournment thereof, a duly completed proxy must be received by the Secretary of the Corporation, c/o The R-M Trust Company, P.O. Box 2517, 6th Floor, Dome Tower, Toronto Dominion Square, 333 - 7th Avenue S.W., Calgary, Alberta T2P 9Z9, not later than 4:30 p.m. (Calgary time) on the second business day preceding the day of the Meeting or any such adjournment. A shareholder who has given a proxy may revoke it by depositing a form of revocation of proxy, signed by him or by his attorney authorized in writing, at the registered office of the Corporation at the address shown above, at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof. Alternatively, the shareholder may revoke the proxy and may vote in person, as to any matter on which a vote has not already been cast pursuant to the authority conferred by the proxy, by depositing such form of revocation of proxy with the Chairman of the Meeting at the Meeting or any adjournment thereof, or the shareholder may revoke the proxy in any other manner permitted by law.

On any ballot that may be called for at the Meeting, all shares in respect of which the persons named in the enclosed form of proxy have been appointed to act will be voted or withheld from voting in accordance with the specifications made on the proxy. **If a specification is not made with respect to any matter, the shares will be voted FOR the election as directors of the nominees specified in this Management Proxy Circular, FOR the appointment of Deloitte & Touche as auditor and FOR each of the special and ordinary resolutions to be considered at the Meeting.**

The form of proxy confers discretionary authority upon the persons appointed with respect to amendments to the matters identified in the notice of the Meeting and with respect to any other matters which may properly come before the Meeting. The directors of the Corporation know of no matters to come before the Meeting other than the matters identified in the notice of the Meeting. If any matters which are not known should properly come before the Meeting, the persons named in the enclosed form of proxy will vote on such matters in accordance with their best judgment.

## **RECORD DATE AND VOTING OF SHARES**

Only persons who are holders of record of common shares of the Corporation ("Common Shares") on March 20, 1995, shall be entitled to attend the Meeting and to vote thereat except to the extent that (i) a shareholder has transferred the ownership of any of his shares after March 20, 1995, and (ii) the transferee of those shares produces properly endorsed share certificates, or otherwise establishes that he owns the shares and demands, not later than 10 days before the Meeting, that his name be included in the list of shareholders entitled to vote at the Meeting, in which case the transferee shall be entitled to vote his shares at the Meeting.

On February 22, 1995, the Corporation had 82,790,424 Common Shares outstanding. Holders of Common Shares are entitled to one vote for each share held at all meetings of shareholders of the Corporation.

A quorum at the Meeting will consist of at least two shareholders present in person or represented by proxy and representing not less than 25% of the shares entitled to be voted at the Meeting.

## **PRINCIPAL HOLDERS OF VOTING SHARES**

The management of the Corporation understands that Noranda Inc. ("Noranda"), Suite 4100, BCE Place, 181 Bay Street, Toronto, Ontario and associated companies own 36,277,229 or approximately 43.82% of the Common Shares of the Corporation. To the knowledge of the directors and officers of the Corporation, no other person beneficially owns or exercises control or direction over shares carrying more than 10% of all the votes attached to the outstanding voting shares of the Corporation.

## **ELECTION OF DIRECTORS**

The number of directors to be elected to the Board of Directors at the Meeting consists of such number as is determined from time to time by ordinary resolution of the directors, such number being not less than ten and not more than eighteen. The current number of directors is 15. Messrs. Robert Després and John R. Yarnell have advised that they will not be standing as nominees for election as directors at the Meeting. Accordingly, the Board of Directors resolved that the number of directors to be elected at the Meeting be fixed at thirteen. All directors elected at the Meeting will hold office until the next annual meeting of shareholders or until their successors are duly elected or appointed.

Management of the Corporation proposes to nominate for election as directors at the Meeting the persons listed in the following table. All proposed nominees have consented to be named in this Management Proxy Circular and to serve as directors if elected. Management has no reason to believe that any proposed nominee will be unable to serve as a director, but should any such nominee become unable to do so for any reason prior to the Meeting, the persons named in the enclosed form of proxy, unless directed to withhold from voting, reserve the right to vote for other nominees in their discretion.

The following table sets forth the name and background information for each proposed nominee for election as director, including present principal occupation, principal occupations during the past five years (if such information has not been previously disclosed in a proxy circular issued by the Corporation) and any positions held with the Corporation and its significant affiliates. The background information includes the date on which each proposed nominee first became a director of the Corporation. In addition, the table shows the number of shares of the Corporation that each proposed nominee beneficially owns, or exercises control or

direction over, directly or indirectly, as of February 22, 1995. The information as to shares owned beneficially, not being within the knowledge of the Corporation, has been furnished by the nominees individually.

Name	Background Information	Common Shares
Douglas G. Bassett, O.C. (5)	Mr. Bassett is President and Chief Executive Officer of Baton Broadcasting Incorporated (television broadcasting company). He has been a director of the Corporation since 1981.	4,151
Edward G. Battle (1)(4)	Mr. Battle is Chairman of the Corporation. Prior to January 1991 he was President and Chief Executive Officer of the Corporation. He has been a director of the Corporation since 1969.	26,110
Grant D. Billing	Mr. Billing is President and Chief Executive Officer of the Corporation. From January 1992 to August 1994, he was President and Chief Executive Officer and a director of Sceptre Resources Limited (natural resources company). From 1988 to 1992, he held senior executive roles at North Canadian Oils Limited, first as Senior Vice-President and then as Executive Vice-President and Chief Operating Officer. He has been a director of the Corporation since 1994.	354
G. Montegu Black (3)	Mr. Black is Chairman and President of Txibanguan Limited (investment holding company). He has been a director of the Corporation since 1980.	--
Jack L. Cockwell	Mr. Cockwell is President and Chief Executive Officer of Brascan Limited ("Brascan") (natural resources, financial services and power generation company). He has been a director of the Corporation since 1986.	10,000
Hon. J. Trevor Eyton, O.C. (4)	Mr. Eyton is Chairman and a director of Brascan. He has also been a member of the Senate of Canada since 1991. He has been a director of the Corporation since 1986.	5,000
David W. Kerr (1)(2)	Mr. Kerr is President and Chief Executive Officer of Noranda (natural resources company). He has been a director of the Corporation since 1986.	10,000
Hon. Peter Loughheed, P.C., C.C., Q.C. (4)	Mr. Loughheed is a senior partner in the law firm of Bennett Jones Verchere and a member of the Board of Directors of Noranda. He has been a director of the Corporation since 1988.	--
Hon. W. John McKeag (2)(5)	Mr. McKeag is President of McKeag Realty Ltd. (real estate company). He has been a director of the Corporation since 1980.	917
Alfred Powis, O.C. (1)(3)	Mr. Powis is Chairman of Noranda. He has been a director of the Corporation since 1988.	2,000

E. Courtney Pratt (3)(5)	Mr. Pratt is Executive Vice-President of Noranda. He has been a director of the Corporation since 1990.	--
Clifford A. Rae, Q.C. (1)(2)	Mr. Rae is serving as an administrator of a private foundation and as counsel to the law firm of Macleod Dixon. He has been a director of the Corporation since 1986.	--
Hon. Barbara J. Sparrow, P.C. (5)	Ms. Sparrow is President of Sparrow Holdings Ltd. (private holding company). She was a director of the Corporation from 1979 to 1984 and has been a director again since 1994.	--
(1)	Member of the Executive Committee.	
(2)	Member of the Audit Committee.	
(3)	Member of the Compensation Committee.	
(4)	Member of the Nominating Committee.	
(5)	Member of the Pension Committee.	

## APPOINTMENT OF AUDITOR

At the Meeting, the shareholders will be asked to vote for the appointment of Deloitte & Touche, Chartered Accountants, as the auditor of the Corporation to replace KPMG Peat Marwick Thorne, whose term of office will expire at the closing of the Meeting. KPMG Peat Marwick Thorne was the auditor of the predecessors of the Corporation, was appointed auditor of the Corporation upon its formation in 1975 and has been appointed as the auditor of the Corporation at each annual meeting since then. Attached to this Management Proxy Circular as Schedule "A" are copies of certain documents relating to the change of auditor as required by National Policy Statement No. 31 of the Canadian Securities Administrators.

**The persons designated in the enclosed form of proxy, unless instructed otherwise, intend to vote for the appointment of Deloitte & Touche as the auditor of the Corporation.**

## AMENDMENT OF ARTICLES

At the Meeting, shareholders entitled to vote will be asked to consider and, if thought fit, pass a special resolution authorizing an amendment to the Articles of the Corporation to eliminate the restrictions on business contained therein. The Articles currently contain the following restrictions:

"The business of the Company shall be restricted to the following:

- (a) processing, exploring and drilling for, producing and accumulating oil, gas, coal, any other minerals or sources of energy, and by-products or derivatives of any of the foregoing;
- (b) refining, processing, treating, manufacturing, storing, transmitting, transporting, distributing and in any manner whatsoever dealing in or with oil, gas, coal, any other minerals or sources of energy, and by-products or derivatives of any of the foregoing;
- (c) constructing, owning and operating pipelines and plants and all appurtenances relative thereto for the gathering, refining, processing, treating, storing, transmitting, transporting, distributing and/or delivering of gases, liquids and solids or any of them;
- (d) manufacturing, producing, providing, furnishing, distributing or selling goods and services of every nature and kind whatsoever; and

- (e) investing in the shares, bonds, debentures or other securities of any other company or organization and managing, supervising, controlling or in any other manner whatsoever participating in the business, operation or undertaking of any other company or organization of which the Company holds any shares, bonds, debentures or other securities or in which the Company has any other interest."

A statement of the Corporation's objects was required under The Companies Act of Alberta, the act under which the Corporation was formed on October 28, 1975 by the amalgamation of two predecessor companies. These objects were subsequently carried over upon the continuance of the Corporation under the Canada Business Corporations Act (the "CBCA") on April 15, 1977 and set out as restrictions on business in the Articles of Continuance.

The elimination of restrictions on the Corporation's business as set out in the Articles is being proposed as a matter of administrative convenience inasmuch as management does not currently foresee any change in the Corporation's core business. However, the proposed amendment, if passed by the shareholders, will remove a potential hindrance from the Corporation being able to take advantage of future opportunities.

In order to become effective, the special resolution must be passed by at least two-thirds (2/3) of the votes cast at the Meeting. **The persons named in the enclosed form of proxy, unless instructed otherwise, intend to vote in favour of the special resolution.** The Corporation has been advised that Noranda will be casting all the votes attached to the Common Shares held by it in favour of the special resolution.

The full text of the special resolution is set forth in Schedule "B" hereto.

Under the provisions of Section 190 of the CBCA, any holder of shares of the Corporation may dissent if the special resolution is approved by the necessary majority of shareholders. A dissenting shareholder who complies with Section 190 of the CBCA in respect of such special resolution is entitled to be paid the fair value of the shares held by such shareholder in respect of which the shareholder dissents, determined as of the close of business on the day before the day on which the special resolution is adopted. A dissenting shareholder may only claim under Section 190 with respect to all of the shares held by the dissenting shareholder or on behalf of any one beneficial owner and registered in the name of the dissenting shareholder. In order to dissent, a shareholder must send a written objection to the special resolution to the Corporation at or before the Meeting. The execution or exercise of a proxy will not constitute a written objection.

**The provisions of the CBCA setting forth the procedures which must be followed by a dissenting shareholder are complex and if not strictly followed may adversely affect the right of a dissenting shareholder to receive from the Corporation the fair value of such shareholder's shares. A shareholder who wishes to dissent, or be better informed about his dissent rights, should consult a legal advisor.**

All notices sent to the Corporation pursuant to Section 190 of the CBCA should be addressed to the Vice-President, Legal and Secretary at 715-5th Avenue S.W., Calgary, Alberta, T2P 2X7.

## APPROVAL OF INCENTIVE STOCK OPTION PLAN

On February 14, 1995, the Board of Directors amended and restated the Corporation's Incentive Stock Option Plan, subject to shareholder approval, in order to comply with new stock exchange policies adopted in 1994 relating to stock option plans and to provide greater flexibility to the Corporation in the granting of options within the parameters established by those new policies. At the Meeting, shareholders will be asked to approve the amended and restated plan (as amended and restated, the "Amended ISOP").

The purpose of the Amended ISOP is to promote the interests, growth and development of the Corporation by providing certain persons, through options, with the opportunity to acquire an increased proprietary interest in the Corporation and with an increased incentive to contribute to the success of the Corporation. Under the Amended ISOP, options relating to Common Shares of the Corporation may be granted to employees, officers and directors of the Corporation and its subsidiaries and to any other person or company engaged to provide

ongoing management or consulting services for the Corporation or any of its subsidiaries. Options may be granted as either purchase options, being a right to purchase a specified number of Common Shares at a fixed option price, or as market growth options, being a right to receive without payment Common Shares having a value equal to the increase in value (based on the market price) of a specified number of Common Shares. The terms, conditions and limitations of each option are determined by the Board of Directors, within certain limitations. The exercise price for each option may not be lower than the closing price of the Common Shares on The Toronto Stock Exchange (the "TSE") on the last day on which the Common Shares traded prior to the date on which the option is granted. For market growth options, the price used as the market price of the Common Shares at the date of exercise for purposes of determining the market appreciation of the Common Shares will be the average of the daily high and low board lot trading prices of the Common Shares on the TSE for the five trading days immediately preceding the date of exercise. The term of each option is fixed when the option is granted, and may not be greater than ten years from the day on which the option is granted. The options are not transferrable.

The aggregate number of Common Shares which may be issued after February 14, 1995 pursuant to options granted under the Amended ISOP is limited to 8,000,000 Common Shares. Common Shares in respect of which options are not exercised or in respect of which options are cancelled will be available for subsequent options.

The significant amendments made to the Corporation's Incentive Stock Option Plan (the "ISOP") are as follows:

- (a) As required by the new policies of the Toronto and Montreal stock exchanges, the Amended ISOP provides that the exercise price for each option may not be lower than the market price of the Common Shares on the TSE on the last day on which the Common Shares traded prior to the date on which the option is granted. Previously, a discount from the market price at the time of grant was permitted.
- (b) The limit on the number of Common Shares that may be issued pursuant to options granted under the Amended ISOP has been increased from 3,800,000 Common Shares to 8,000,000 Common Shares. This increase is necessary to allow for participation in the Amended ISOP over several years by a greater number of employees than in the past and is consistent with the present guidelines which the Corporation has set for calculating the numbers of annual option grants to employees. Since the options which the Corporation has granted to date and presently intends to continue to grant are market growth options and since the "face" number of shares covered by such options is used only for purposes of determining the relevant amount of market appreciation, the number of shares issued on exercise will always be less than the face number of shares covered by the options. However, stock exchange policies require that a maximum number of shares issuable be specified and that, for purposes of this type of option, the number of shares regarded as reserved for issuance be the face number. Accordingly, while the specified limit is 8,000,000 shares, the actual number of shares which may be issued pursuant to the options granted under the Amended ISOP will be less than that number.
- (c) The Amended ISOP provides that options may also be granted to directors and certain other persons or companies engaged to provide services for the Corporation or its subsidiaries. Previously, options could only be granted to officers and full-time employees of the Corporation and its subsidiaries.

On February 14, 1995, the Board of Directors authorized the grant of market growth options relating to an aggregate of 1,376,500 Common Shares to various officers and employees of the Corporation. Each such option has an exercise price of \$16.50 per Common Share and expires four years from the date of grant. All of these options are subject to shareholder approval of the Amended ISOP and no shares may be issued pursuant thereto unless the Amended ISOP is approved by the shareholders. Subject to the shareholders approving the Amended ISOP, the options are exercisable in whole or in part at any time prior to their expiry. Certain of the options were granted to replace market growth options which had been previously granted under the ISOP, and the granting of those new options to senior officers of the Corporation requires separate shareholder approval as described below under "Approval of Replacement Options".

The Amended ISOP is being submitted to the shareholders for approval to satisfy the new policies of the Toronto and Montreal stock exchanges. Those policies require that the Amended ISOP be approved by a majority of the votes cast at the Meeting. If the Amended ISOP is not approved by the shareholders, the ISOP will be rescinded (subject to outstanding continuing rights under options previously granted thereunder).

**The persons designated in the enclosed form of proxy, unless instructed otherwise, intend to vote for the resolution approving the Amended ISOP.**

## **APPROVAL OF REPLACEMENT OPTIONS**

In 1994, the Corporation decided to attempt to put all the senior officers on an equal footing in terms of stock options. Different numbers of stock options had been granted in the past at different times to various numbers of senior officers with a variety of exercise prices. Also, certain officers who had joined the Corporation in 1994 had not previously received any options.

Accordingly, in December 1994 the board approved of the grant of market growth options relating to 60,000 common Shares to each senior officer other than the President (100,000 in the case of Douglas W. Palmer) all with an exercise price equal to the average of the high and low trading price on the TSE on December 12, 1994, subject to stock exchange and shareholder approval, provided that any such grant to a senior officer with prior outstanding options was conditional on the surrender of all those prior options. Subsequently, however, as the Corporation's overall assessment of executive compensation was further developed, the Corporation and the senior officers agreed to effect the equalization of the senior officers' positions with Amended ISOP options to be issued in February, 1995 to a large number of employees. Accordingly, those options approved in December, 1994 which were to replace prior options (the "December Options") were not issued.

On February 14, 1995, the Board of Directors, after receiving recommendations from senior management relating to the share option component in employee compensation, authorized the grant of market growth options under the Amended ISOP relating to an aggregate of 1,376,500 Common Shares to approximately 375 officers and employees of the Corporation and its subsidiaries. The options granted to persons who already held options previously granted under the ISOP were intended to replace all of those prior options, and were granted subject to shareholder approval (to the extent required by the stock exchanges) and to the holders agreeing to terminate their prior options. The intent of this option grant was to put all officers and employees to whom the options were granted on an equal footing with respect to their options.

After the February 14 grant, and taking into account the proposed cancellation of all prior options held by the persons to whom new options were granted, options relating to an aggregate of 1,981,250 Common Shares were outstanding (subject to the required stock exchange and shareholders' approvals).

The February 14 grant of replacement options included the grant of options relating to an aggregate of 232,500 Common Shares (the "Replacement Options") to ten senior officers of the Corporation to replace options previously granted under the ISOP relating to an aggregate of 783,000 Common Shares (the "Initial Options"). The Toronto and Montreal stock exchanges require specific shareholder approval for any material amendment to an option granted to an insider, which includes the cancellation of an option prior to its expiry date in conjunction with the granting of an option to the same person on different terms. Accordingly, at the Meeting, shareholders will be asked to ratify and approve the granting of the Replacement Options to the senior officers of the Corporation.

The Replacement Options have an exercise price of \$16.50 per Common Share and expire on the fifth anniversary of the date of grant. Subject to the shareholders approving the Replacement Options, the Replacement Options are exercisable in whole or in part at any time prior to their expiry. The Replacement Options are structured so that upon exercise the holder will receive, without giving further consideration, such number of Common Shares as equals the quotient obtained by dividing (a) the amount obtained by multiplying the number of Common Shares with respect to which the option is exercised by the difference between the

exercise price and the market price of the Common Shares on the date the option is exercised (calculated as the average of the daily high and low board lot trading prices of the Common Shares on the TSE for the five trading days immediately preceding the date of exercise), by (b) the market price of the Common Shares on the date of exercise. The Initial Options were also granted in the form of market growth options and for a five year term, but were exercisable as to 25% after one year, 50% after two years, 75% after three years and fully exercisable after four years.

The following table sets forth the various dates of grant and exercise prices for the Initial Options to be replaced.

<b>Date of Grant</b>	<b>Number of Shares</b>	<b>Exercise Price</b>
June 11, 1991	22,500	\$19.29375
December 8, 1992	155,000	\$18.7375
June 8, 1993	60,000	\$19.29375
August 10, 1993	18,000	\$17.38125
August 17, 1994	350,000	\$15.8125
October 13, 1994	57,500	\$17.75
December 13, 1994	<u>120,000</u>	\$16.1875
<b>TOTAL</b>	<b>783,000</b>	

In the first year, most recipients of Replacement Options who held Initial Options will have a smaller number of Replacement Options than the number of Initial Options that such recipient held. The difference between the number of Common Shares subject to the Replacement Options and the Initial Options is attributable in part to the difference between the vesting provisions in the Replacement Options as compared to the Initial Options and to the Corporation's intention with respect to the future grant of options. The Corporation presently intends to make grants of options relating to a similar number of shares as the Replacement Options on an annual basis for the next three years.

The resolution ratifying and approving the grant of the Replacement Options to the senior officers of the Corporation to replace the Initial Options as described above must be passed by a majority of the votes cast by shareholders at the Meeting, excluding those shareholders to whom the Replacement Options were granted. To the knowledge of the Corporation, the number of votes attaching to Common Shares that will not be counted for the purpose of determining whether the required level of shareholder approval has been obtained is 14,113. If the resolution is not passed by the required majority, the Replacement Options will not be effective and the optionees will continue to hold their Initial Options.

**The persons designated in the enclosed form of proxy, unless instructed otherwise, intend to vote for the resolution approving the granting of the Replacement Options.**

## EXECUTIVE COMPENSATION

### SUMMARY COMPENSATION TABLE

The following table sets out a summary of executive compensation for the President and CEO of the Corporation, each other person who served as CEO of the Corporation during 1994 (indicated by \* ), each of the Corporation's next four highest compensated executive officers, and those additional individuals who would have been included in the foregoing but did not remain in the employment of the Corporation to the end of 1994 (collectively the "Named Executive Officers").

Name and Principal Position with the Corporation	Year	Annual Compensation			Long-Term Compensation	All Other Compensation (\$)
		Salary (\$)	Bonus <sup>(1)</sup> (\$)	Other Annual Compensation (\$)	Awards	
					Securities Under Options/SARs Granted (#)	
Grant D. Billing <sup>*(2)</sup> President and Chief Executive officer	1994	133,333	-	7,040	350,000 <sup>(3)</sup>	-
Barry D. Cochrane <sup>*(4)</sup> Past President and Chief Executive Officer	1994	160,417	-	188,131	-	1,200,000
	1993	310,000	52,480	33,497 <sup>(5)</sup>	-	-
	1992	275,000	-	-	200,000	-
Wayne M. Newhouse <sup>*(4)</sup> Past Senior Vice-President, International (Acting President and CEO)	1994	187,382	50,000 <sup>(6)</sup>	53,524	-	485,367
	1993	219,000	15,640	22,805 <sup>(5)</sup>	-	-
	1992	204,600	-	-	75,000	-
Paul H. Palmer Past Senior Vice-President and Chief Financial Officer <sup>(4)</sup>	1994	235,400	-	-	-	470,800
	1993	226,400	41,699	-	-	-
	1992	210,000	-	-	80,000	-
George V. Kenda Vice-President, Marketing	1994	185,000	-	-	60,000 <sup>(8)</sup>	-
	1993	170,000	20,028	167,188 <sup>(7)</sup>	30,000	-
	1992	150,000	-	-	45,000	-
J. Gerhard Schopp Vice-President, Exploitation	1994	180,000	-	-	60,000 <sup>(8)</sup>	-
	1993	170,000	16,590	178,323 <sup>(7)</sup>	30,000	-
	1992	160,000	-	-	40,000	-
Douglas W. Palmer, Senior Vice-President and Chief Operating Officer	1994	176,270	-	4,158	57,500; 100,000 <sup>(8)</sup>	-
	1993	154,500	15,988	-	-	-
	1992	140,000	-	-	35,000	-

<sup>(1)</sup> The Corporation has a Performance Bonus Plan which provides cash bonuses to designated employees of the Corporation and its subsidiaries related to annual salary in recognition of attainment of financial and other performance objectives. The plan is administered by the Board of Directors on the recommendation of the Compensation Committee. The amounts set out in the bonus column above for 1994 reflect bonuses earned in 1993 and paid in 1994 under the Performance Bonus Plan.

<sup>(2)</sup> Grant D. Billing joined the Corporation September 1, 1994 and was employed by the Corporation for four months during 1994.

(3) Grant D. Billing agreed to surrender the 350,000 options in exchange for 87,500 new options granted on February 14, 1995 under the Amended ISOP, subject to shareholders' approval.

(4) The 1994 salaries indicated above for the following named executive officers relate to employment with the Corporation for those portions of 1994 indicated:

Barry D. Cochrane	5 months
Wayne M. Newhouse	9.5 months
Paul H. Palmer	12 months (retired January 1, 1995)

The amounts indicated under "All Other Compensation" include retirement allowances paid in 1994 to Mr. Cochrane and payable in 1995 to Mr. Newhouse and Mr. P. H. Palmer. "Holiday Pay" which was paid to Mr. Cochrane in 1994 and was payable to Mr. Newhouse in 1995 are included in "Other Annual Compensation". In addition, as part of the retirement arrangements, the Corporation agreed to pay outplacement expenses.

(5) Reflects the dollar value of imputed interest benefits received in 1993 as a result of loans made to the Named Executive Officers under the Corporation's Executive Share Purchase Plan ("ESPP"). These benefits are also included for 1994 with other compensation under the Other Annual Compensation column. A summary description of the ESPP is set out in the section of this Management Proxy Circular entitled "Indebtedness of Directors, Executive Officers and Senior Officers".

(6) In 1994, Mr. Newhouse earned a special bonus of \$50,000 for serving as Acting Chief Executive Officer for 3 months.

(7) In 1993, five executive officers of the Corporation, including Messrs. Kenda and Schopp, received special cash compensation for the purpose of repaying indebtedness to the Corporation pursuant to the ESPP. The footnoted amounts set out in the above table include the special cash compensation received by Messrs. Kenda and Schopp and the dollar value of ESPP related imputed interest benefits referred to in footnote (5) above.

(8) In December 1994, in order to place all senior executives on an equal footing, the board approved of the grant of market growth options relating to 60,000 Common Shares to each senior executive officer (100,000 in the case of Douglas W. Palmer), all with an exercise price equal to the average of the high and low board lot trading price on December 12, 1994, subject to stock exchange and shareholder approval, provided that any such executive with prior outstanding options surrendered all of those prior options. Douglas W. Palmer had received 57,500 options earlier in 1994, which were to be included in his surrender. Subsequently, it was decided to effect this equalization by granting new options on February 14, 1995 under the Amended ISOP, subject to shareholders' approval. Accordingly, the December Options were not issued.

## OPTIONS AND STOCK APPRECIATION RIGHTS

The following table sets out all option and stock appreciation right ("SAR") grants made to Named Executive Officers during the fiscal year ended December 31, 1994.

### OPTION/SAR GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR<sup>(1)</sup>

Name	Securities Under Options/SAR Granted <sup>(2)</sup> (#)	% of Total Options/SARs Granted to Employees in Financial Year	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)	Expiration Date
Grant D. BILLING	350,000 <sup>(3)</sup>	35.4%	\$15.8125	\$15.8125	August 17, 1999
George V. KENDA	60,000 <sup>(4)</sup>	6.1%	\$16.1875	\$16.1875	December 13, 1999
J. Gerhard SCHOPP	60,000 <sup>(4)</sup>	6.1%	\$16.1875	\$16.1875	December 13, 1999
Douglas W. PALMER	100,000 <sup>(4)</sup> 57,500	10.1% 5.8%	\$16.1875 \$17.750	\$16.1875 \$17.750	December 13, 1999 October 13, 1999

- (1) See "Approval of Replacement Options"
- (2) The options included in the table were granted under the Corporation's Incentive Stock Option Plan for a five-year term and exercisable as to 25% after one year, 50% after two years, 75% after three years and fully exercisable after four years. The options were granted at a base price equal to the market value of the underlying shares, as defined in the ISOP. The options provided that, upon exercise, the holder would receive, without giving further consideration, such number of Common Shares as equals the quotient obtained by dividing (a) the amount obtained by multiplying the number of Common Shares with respect to which the option is exercised, by the difference between the market price of such share on the day immediately preceding the day that such option is exercised and the base price, by (b) the market price of such share on the day immediately preceding the day that such option is exercised.
- (3) Grant D. Billing agreed to surrender the 350,000 options in exchange for 87,500 new options granted on February 14, 1995 under the Amended ISOP, subject to shareholders' approval.
- (4) The December Options were offered to senior officers in return for the surrender of all their Initial Options. Subsequently, the senior officers agreed to surrender their Initial Options in return for options approved on February 14, 1995 under the Amended ISOP and the December Options were not issued. The number of options so granted under the Amended ISOP was 15,000 for each of Messrs. Kenda and Schopp and 25,000 for Mr. Palmer.

**AGGREGATED OPTION/SAR EXERCISES  
DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR  
AND FINANCIAL YEAR-END OPTION/SAR VALUES**

There were no options exercised by the Named Executive Officers during the fiscal year ended December 31, 1994. The following table indicates the financial year end value of unexercised options on an aggregated basis.

**FINANCIAL YEAR-END OPTION/SAR VALUES**

Name	Unexercised Options/SARs at Fiscal Year-End (#)		Value of Unexercised in-the-Money Options/SARs at Fiscal Year-End (\$)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Grant D. BILLING	0	350,000	0	262,500
Barry D. COCHRANE	100,000	-	0	0
Wayne M. NEWHOUSE	75,000	-	0	0
Paul H. PALMER	80,000	-	0	0
George V. KENDA	-	75,000	0	0
J. Gerhard SCHOPP	-	70,000	0	0
Douglas W. PALMER	-	100,000	0	0

## TABLE OF OPTION AND SAR REPRICINGS

The following table sets out the intended 1994 downward repricing of options held by executive officers, which repricing was intended to be effected by way of grants of the December Options.<sup>(1)(2)</sup> In 1995, before the December Options were issued, the Replacement Options were granted (subject to regulatory and shareholder approval) and accordingly the December Options were not issued.

Name	Date of Repricing	Securities Under Options/SARs Repriced or Amended (#) <sup>(3)</sup>	Market Price of Securities at Time of Repricing or Amendment (\$/Security)	Exercise Price at Time of Repricing or Amendment (\$/Security)	New Exercise Price (\$ / Security) <sup>(4)</sup>	Length of Original Option Term Remaining at Date of Repricing or Amendment
George V. KENDA Vice-President, Marketing	December 13, 1994	45,000 30,000	16	\$18.7375 \$19.29375	\$16.1875	36 months 42 months
J. Gerhard SCHOPP Vice-President, Exploitation	December 13, 1994	40,000 30,000	16	\$18.7375 \$19.29375	\$16.1875	36 months 42 months
Douglas W. PALMER Senior Vice- President and COO	December 13, 1994	57,500 35,000 7,500	16	\$17.75 \$18.7375 \$19.29375	\$16.1875 \$16.1875 \$16.1875	58 months 36 months 20 months
S. Craig BUCHANAN Vice-President, Operations	December 13, 1994	7,000 3,000	16	\$19.29375 \$17.38125	\$16.1875 \$16.1875	18 months 44 months
Cliff M. WEST, Jr. Vice-President, Exploration	December 13, 1994	8,000	16	\$19.29375	\$16.1875	18 months
Peter D. JONES Vice-President, Information Systems	December 13, 1994	15,000	16	\$17.38125	\$16.1875	44 months
Edward A. LEEW Vice-President, Legal and Secretary	December 13, 1994	35,000	16	\$18.7375	\$16.1875	36 months

- (1) During the past ten year period, there were no downward repricings of options held by any executive officer other than those shown.
- (2) The exercise price of the options was calculated as the mean between the highest and lowest board lot prices at which the Common Shares were traded on the Toronto Stock Exchange on the day preceding the grant.
- (3) In 1994, all options listed in this column were to be repriced under agreements to exchange them for 60,000 December Options (100,000 in the case of Douglas W. Palmer).
- (4) The basis for all downward pricings in 1994 was the desire to put all senior executives of the Corporation on an equal footing, following the Corporations' organizational restructuring and the appointment of several new executives.

## DEFINED BENEFIT OR ACTUARIAL PLAN DISCLOSURE

The following table sets out the combined estimated annual benefits payable under the Corporation's Salaried Employees' Pension Plan and Supplementary Pension Plan for the remuneration levels and years of service set out.

### PENSION PLAN TABLE

Remuneration  (\$)	Years of Service				
	15	20	25	30	35
125,000	\$ 34,494	\$ 45,992	\$ 57,490	\$ 68,988	\$ 80,486
150,000	\$ 41,994	\$ 55,992	\$ 69,990	\$ 83,988	\$ 97,986
175,000	\$ 49,494	\$ 65,992	\$ 82,490	\$ 98,988	\$115,486
200,000	\$ 56,994	\$ 75,992	\$ 94,990	\$113,988	\$132,986
225,000	\$ 64,494	\$ 85,992	\$107,490	\$128,988	\$150,486
250,000	\$ 71,994	\$ 95,992	\$119,990	\$143,988	\$167,986
300,000	\$ 86,994	\$115,992	\$144,990	\$173,988	\$202,986
400,000	\$116,994	\$155,992	\$194,990	\$233,988	\$272,986
500,000	\$146,994	\$195,992	\$244,990	\$293,988	\$342,986

Pension benefits are based only on the salary component of remuneration as set out in the Summary Compensation Table. At December 31, 1994, the estimated credited years of service of the Named Executive Officers was as follows: Grant D. Billing, four months; Barry D. Cochrane, 20 years; Wayne M. Newhouse, 15.9 years; Paul H. Palmer, 18.17 years; George V. Kenda, 16.5 years; J. Gerhard Schopp, 17.5 years and Douglas W. Palmer, 15.8 years.

Pension benefits are computed on a joint and survivor basis. On death after retirement, 50% of the member's pension is payable to his surviving spouse. On the death of the member within 5 years after retirement, full pension payments are guaranteed to the surviving spouse or the member's beneficiary, as applicable, for the balance of the five year period. The benefits listed in the table are not subject to any deduction for social security received or other offset amount.

The Corporation has retiring allowance agreements with two of the Named Executive Officers: Messrs. B.D.Cochrane and P.H.Palmer. These agreements provide that such Named Executive officers, upon retirement, receive a maximum annual retiring allowance that equals (i) 60% of the average of the best three of the last five years' earnings (inclusive of bonus), less (ii) pension benefits as defined in the agreements (which benefits do not include supplementary pension plan benefits). Payments will be made until the death of the individual and thereafter will be continued to a surviving spouse at a rate equal to 50% of that which the individual was then receiving.

Mr. Cochrane retired on May 19, 1994. Mr. P. H. Palmer retired on January 1, 1995. The annual retirement allowances payable to such executive officers are \$240,000 (less payments under the Pension Plans) and \$125,576 (less payments under the Pension Plans) respectively.

## **EMPLOYMENT CONTRACTS**

In September, 1994 the Corporation entered into a Letter of Employment with Grant D. Billing relating to his employment as President and CEO of the Corporation. The terms of the Letter of Employment are summarized below. There are no employment contracts with any other Named Executive Officer.

Mr. Billing's base salary is \$400,000 per year. Mr. Billing's annual incentive program target bonus is 40% with a maximum of 65% of salary. For the years 1995, 1996 and 1997, Mr. Billing is guaranteed a bonus of 20% of his annual salary. Mr. Billing received 350,000 ISOP Options which he agreed to surrender in exchange for 87,500 options granted on February 14, 1995 under the Amended ISOP, subject to shareholders' approval (see "Approval of Replacement Options"). The Corporation will grant Mr. Billing \$500,000 of Common Shares effective October 31, 1995 and \$500,000 of Norcen shares effective October 31, 1996, in each case at the market price on that day and provided he is then employed with the Corporation. Should Mr. Billing's employment as President and CEO of the Corporation be terminated involuntarily and without cause, he is to receive a minimum of twice his annual salary. Should there be a change in control of the Corporation, and within 12 months thereof, Mr. Billing voluntarily leaves or is terminated, he will receive three times his annual salary and the share grants referred to above. The agreement also entitles Mr. Billing to participate in all other employee benefits which are made available by the Corporation to other senior executives.

## **COMPENSATION COMMITTEE**

The Corporation has a Compensation Committee that meets for the purpose of reviewing and approving compensation philosophy, practices and guidelines as they apply to the Chief Executive Officer, the Corporation's executive officers and the Presidents of two of the Corporation's major wholly owned subsidiaries. The Chief Executive Officer, in consultation with the Compensation Committee, reviews each executive's performance and compensation on an annual basis. The Compensation Committee met three times during 1994 in performance of its duties. Members of the Compensation Committee are and as of December 31, 1994 were Alfred Powis (Chairman), G. Montegu Black, Robert Després, and E. Courtney Pratt.

## **REPORT ON EXECUTIVE COMPENSATION**

In 1994 Norcen's approach to executive compensation was designed to ensure that total compensation received by the Corporation's executives be competitive with other executives in similar industries. In order to attract and retain quality staff, the Corporation desired to offer salary levels moderately above average. Individual performance was to be rewarded through the achievement of predetermined short term objectives and through the long-term appreciation in the value of the Corporation's shares. Because of the level of Corporate performance, no short term incentive awards were granted for 1994. There were some long term incentive awards in the form of stock options granted to new and current executives for the purpose of putting the executive team on an equal footing in terms of the number of stock options held by each executive.

With the arrival of Mr. Billing and the new executive team, there has been a complete rethinking of executive compensation. The Corporation's approach to compensation is now similar for all employees. Through its total compensation program for its employees, the Corporation intends to attract, retain and motivate superior people. Through the compensation philosophy, employee efforts and rewards will be aligned with corporate strategic direction and increasing shareholder value. Base salaries and benefit structures will be competitive and market based within the oil and gas industry, and will be targeted at or near the industry median. Incentive programs will act as the lever that will enable excellent performers to earn above market levels.

In February 1995, the Compensation Committee introduced several new plans for all employees, including executives. The ISOP introduced in 1992 was amended, subject to regulatory and shareholder approval. The Amended ISOP will now more effectively align employees' interests with those of the Corporation's shareholders. In addition, the Committee introduced a new short term incentive plan for employees that is directly tied to employee and corporate performance.

## Norcen's Compensation Program

The individual components of employee and executive compensation and the Committee's approach to each are:

**Base Salary** will be competitive for similar positions in the upstream oil and gas (or propane) industry, generally at the median level, as determined by several surveys conducted by independent compensation consultants. Annual salary adjustments for each executive are primarily based on positioning relative to competitors within the industry.

**Short Term Incentive** is an annual bonus program that is paid when the Corporation and the executive meet or exceed performance objectives that are established at the beginning of each year. The award will vary depending on individual performance against preset objectives. The maximum award for an executive officer is in the order of 35% of base salary.

A **Long term Incentive** program consisting of stock options provides each executive with a significant element of ownership and aligns the interests of senior management with those of the Corporation's shareholders. For the Corporation's executives it is expected that annual grants of 15,000 stock options will be issued. At current base salary levels, 15,000 stock options would represent an award between 1.2 and 2.0 times base salary of the executive officers. Under the terms of the Amended ISOP, options are granted having an exercise price equal to market price at the time of grant. All options vest immediately, with planned grants being for a four year term.

**Other components** include a pension-savings plan, other benefits and perquisites. These will be competitive, targeted at the median, and will not be industry leaders.

### Chief Executive Officer Compensation

During 1994, three individuals served as Chief Executive Officer at the Corporation:

- Barry D. Cochrane served as CEO for the Corporation until May 31, 1994 when he took early retirement. His salary was moderately above market for his position and he had a target bonus of 27.5% of salary.
- Wayne M. Newhouse, former Senior Vice President, International served as interim CEO from June 1, 1994 until August 31, 1994. He was awarded a \$50,000 bonus for his interim leadership. All other parts of his compensation remained unchanged.
- Grant D. Billing is the current President and Chief Executive Officer.

Compensation for Mr. Billing was established when he joined Norcen on September 1, 1994. Mr. Billing's compensation is consistent with the new Corporate compensation philosophy but included certain salary and bonus incentives to attract him from his prior employer as follows:

- Annual salary which is approximately \$50,000 more than the current market salary for a corporation the size of Norcen.
- Annual incentive program target bonus of 40% with a maximum of 65% of salary. For the years 1995, 1996, and 1997, Mr. Billing is guaranteed a bonus of 20% of his annual salary, which will provide guaranteed total cash compensation at approximately the 70th percentile for CEO's in the industry.
- The Corporation will grant Mr. Billing \$500,000 of Norcen shares on October 31, 1995 and \$500,000 of Norcen shares again on October 31, 1996 at the market price on those dates, provided he is employed with the Corporation on those dates.

Because of the short duration of Mr. Billing's tenure, his performance for the purpose of compensation adjustments will not be reviewed by the Board in 1995 and thus no salary adjustments have been or will be considered before the January 1, 1996 annual performance review.

All of which is respectfully submitted,

Alfred Powis (Chairman)

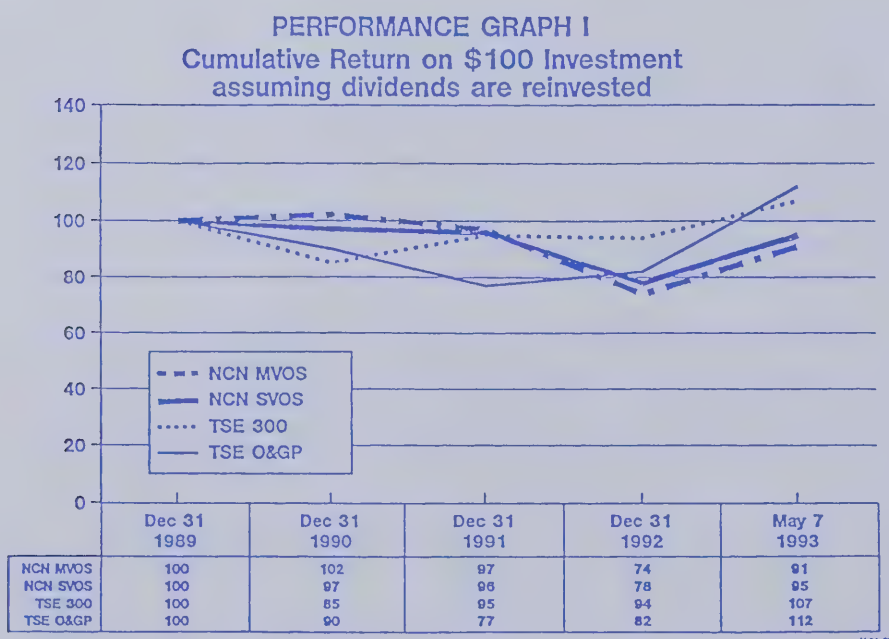
G. Montegu Black

Robert Després

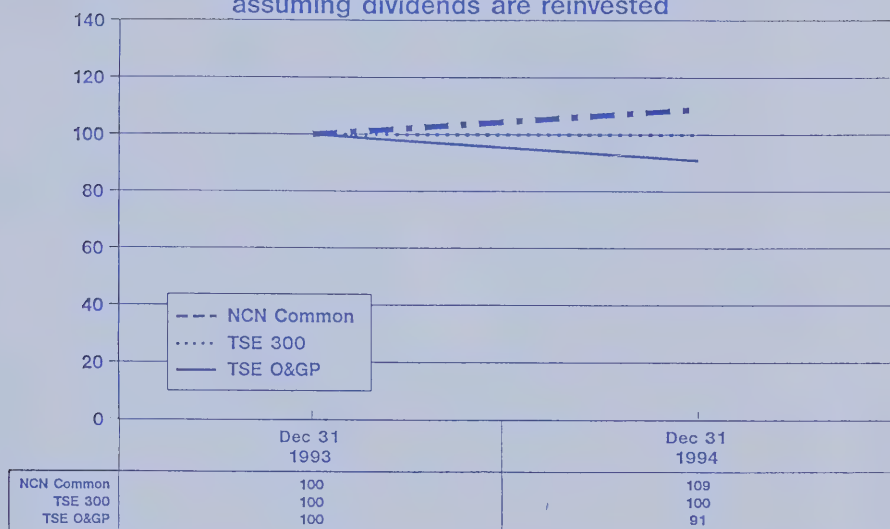
E. Courtney Pratt

## PERFORMANCE GRAPHS

The following performance graphs demonstrate the percentage change in the Corporation's cumulative total shareholder return on the Multiple Voting Ordinary ("MVO"), Subordinate Voting Ordinary ("SVO") and Common Shares of the Corporation, compared to the total return as shown on the TSE 300 Stock Index and the TSE Oil and Gas Producers Index. With respect to the MVO and SVO Shares, Performance Graph I covers the period from December 31, 1989 to and including May 7, 1993, the last day that the MVO and SVO Shares traded on the Toronto, Montreal and American Stock Exchanges. Thereafter, pursuant to a special shareholders' resolution passed at the 1993 Annual and Special Meeting of the Corporation's Shareholders, outstanding MVO and SVO Shares were changed into Common Shares on a one for one basis. The only distinction between the MVO and SVO Shares was a five vote entitlement for each MVO Share held and a one vote entitlement for each SVO Share held. With respect to the Common Shares, Performance Graph II covers the yearly percentage changes from December 31, 1993 to December 31, 1994.



**PERFORMANCE GRAPH II**  
Cumulative Return on \$100 Investment  
assuming dividends are reinvested



K2644340

## COMPENSATION OF DIRECTORS

Directors of the Corporation who are not also executive officers of the Corporation (and excluding the Chairman of the Corporation) received directors' fees based on a proration of \$12,000 per year with board and committee meeting fees of \$1,200 per meeting attended.

Other than Mr. Cochrane, each member of the Executive Committee and other committees received additional annual fees of \$6,000 and \$1,000 respectively. In addition, each chairman of the other committees receives an annual fee of \$1,000.

## INSURANCE

The Corporation maintains directors' and officers' liability insurance with a policy limit of \$15,000,000 aggregate per policy year. Under this insurance coverage, the Corporation would be reimbursed, subject to a deductible of \$250,000 per occurrence, for indemnity payments made to its directors and officers. Individual directors and officers would also be reimbursed for losses arising during the performance of their duties for which they are not indemnified by the Corporation subject to an individual deductible of \$5,000 and an aggregate deductible for all officers and directors of \$25,000. The total 1994 premium for directors' and officers' liability insurance was \$165,000, and was paid entirely by the Corporation.

## INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

The aggregate indebtedness to the Corporation of all current and former officers, directors and employees outstanding as at February 22, 1995 in connection with the purchase of securities of the Corporation was \$2,399,998.

The following table sets out the indebtedness of directors, executive officers, senior officers, proposed nominees for directors, or associates of any of the foregoing, in connection with the purchase of securities of the Corporation.

**TABLE OF INDEBTEDNESS OF DIRECTORS,  
EXECUTIVE OFFICERS AND SENIOR OFFICERS  
UNDER SECURITIES PURCHASE PROGRAMS**

Name and Principal Position with Corporation	Involvement of Corporation or Subsidiary	Largest Amount Outstanding During 1994 <sup>(1)</sup> (\$)	Amount Outstanding as at February 22, 1995 <sup>(1)</sup> (\$)	Financially Assisted Securities Purchases During 1994 (#)	Security for Indebtedness
Barry D. Cochrane, Past President & CEO <sup>(2)</sup>	Corporation is Lender	900,004	900,004	0	Promissory note, pledge of shares
Wayne M. Newhouse Past Senior Vice-President, International <sup>(2)</sup>	Corporation is Lender	600,009	600,009	0	Promissory note, pledge of shares
Gordon B. Singer Past Vice-President, Finance <sup>(2)</sup>	Corporation is Lender	399,993	399,993	0	Promissory note, pledge of shares

<sup>(1)</sup> All amounts shown represent indebtedness of executive officers of the Corporation under the Executive Stock Purchase Plan (the "ESPP"). Under the ESPP, the Corporation's Board of Directors may designate certain officers and/or employees of the Corporation and its subsidiaries to be eligible to receive demand loans for the sole purpose of acquiring Common Shares of the Corporation. These shares were issued at an amount equal to or greater than 90% of "market value" as defined in the ESPP. The interest rate on the loans is equal to the amount of dividends declared on the Common Shares. Subject to earlier demand, the loans are repayable on the first day of the fourth month following the fifth anniversary of the last day designated for participation in the ESPP. All ESPP loan amounts outstanding from time to time are secured by a promissory note and a pledge of the corresponding Common Shares purchased under the plan. In June, 1993 the Board of Directors amended the ESPP thereby eliminating the restriction on loan repayment which previously allowed participants to repay ESPP loans at a rate of 20% per annum on a cumulative basis from the last day designated for participation in the ESPP. In February, 1995 the Board terminated the ESPP (subject to outstanding obligations).

<sup>(2)</sup> Messrs. Cochrane, Newhouse and Singer retired from the Corporation during 1994.

The aggregate indebtedness to the Corporation or its subsidiaries of all current and former officers, directors and employees of the Corporation outstanding as at February 22, 1995 other than in connection with the purchase of securities of the Corporation was \$4,564,424.

The following table sets out the indebtedness to the Corporation all directors, executive officers, senior officers, proposed nominees for directors, or associates of any of the foregoing, that was not entered into in connection with a purchase of securities of the Corporation or any of its subsidiaries (excluding routine indebtedness).

**TABLE OF INDEBTEDNESS OF DIRECTORS,  
EXECUTIVE OFFICERS AND SENIOR OFFICERS  
OTHER THAN UNDER SECURITIES PURCHASE PROGRAMS**

Name and principal Position	Involvement of Corporation or Subsidiary	Largest Amount Outstanding During 1994 (\$)	Amount Outstanding as at February 22, 1995
Cliff M. WEST, Jr. Vice-President, Exploration	Corporation is lender	\$ 193,000 <sup>(1)</sup>	\$ 193,000
Geoffrey N. MACKEY, Vice-President, Human Resources and Administration	Corporation is Lender	\$ 262,000 <sup>(2)</sup>	\$ 10,000

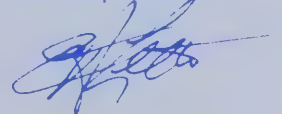
<sup>(1)</sup> This is a non-interest bearing bridging house purchase loan related to Mr. West's relocation from Houston to Calgary. It is secured by his home in Houston and it is anticipated that it will be discharged during 1995.

<sup>(2)</sup> This is a non-interest bearing bridging house purchase loan related to Mr. Mackey's relocation from Seattle to Calgary. It is secured by his home in Seattle and it is anticipated that it will be discharged during 1995.

Excluding routine indebtedness and indebtedness relating to the ESPP referred to above and the indebtedness of each of Cliff M. West, Jr., and Geoffrey N. Mackey respectively, referred to above, none of the current or former directors, executive officers, senior officers or proposed nominees for director of the Corporation, or their respective associates, were indebted to the Corporation or its subsidiaries at any time since January 1, 1994.

## BOARD APPROVAL

The Board of Directors of the Corporation has approved the contents of this Management Proxy Circular and the sending of this Management Proxy Circular to the shareholders of the Corporation.



March 15, 1995  
Calgary, Alberta

EDWARD A. LEEW  
Secretary

**Schedule "A"**

REPORTING PACKAGE RELATING TO CHANGE OF AUDITOR



**Energy Resources Limited**

NORCEN TOWER 715-5 Ave S.W.  
BOX 2595 STN M  
CALGARY AB T2P 4V4  
CANADA

Telephone: (403) 231-0111  
Telex: 03-824776  
Facsimile: (403) 231-0187

**TO: THE SECURITIES ADMINISTRATORS IN EACH  
OF THE PROVINCES OF CANADA**

**KPMG PEAT MARWICK THORNE**

Chartered Accountants  
#1200, 205 Fifth Avenue S.W.  
Calgary, Alberta T2P 4B9

**DELOITTE & TOUCHE**

Chartered Accountants  
#2400, 700 Second Street S.W.  
Calgary, Alberta T2P 2W2

**NOTICE OF CHANGE OF AUDITOR**

This Notice is made pursuant to National Policy Statement No. 31 on Change of Auditor of a Reporting Issuer.

KMG Peat Marwick Thorne ("KPMG"), Chartered Accountants, was appointed auditor of Norcen Energy Resources Limited (the "Corporation") at the Corporation's last annual meeting, held on April 19, 1994, and has been the auditor of the Corporation since 1975. KPMG's appointment as auditor expires at the close of the Corporation's next annual meeting. The directors of the Corporation have determined not to propose KPMG for reappointment as auditor at the Corporation's next annual meeting, and intend to propose the appointment of Deloitte & Touche, Chartered Accountants, as auditor of the Corporation.

There have been no reservations in KPMG's report for:

- a) the audits of the two most recently completed fiscal years of the Corporation; or
- b) the period commencing January 1, 1995 to the date hereof.

The Corporation's audit committee and board of directors have considered and approved the proposed change in auditor.

In the opinion of the Corporation, there have been no reportable events, as that term is defined in Part 3 of National Policy Statement No. 31 of the Canadian Securities Administrators, occurring during the period since January 1, 1993 in connection with services performed by KPMG.

Dated February 22, 1995

**NORCEN ENERGY RESOURCES LIMITED**

Per: \_\_\_\_\_

A handwritten signature in dark ink, appearing to be 'J. H. B.', is written over a horizontal line.



**Chartered Accountants**

2400 Scotia Centre  
700 - 2nd Street S.W.  
Calgary, Alberta T2P 0S7

Telephone: (403) 267-1700  
Fax: (403) 264-2871

TO: The Securities Administrators in each  
of the Provinces of Canada

Dear Sirs:

We have received Notice from Norcen Energy Resources Limited that the directors of the Corporation intent to recommend to the shareholders the appointment of our firm as auditors of the Corporation at the next Annual General Meeting of Shareholders.

We hereby advise that we are in agreement with the information contained in the said Notice, based on our knowledge at this time.

Dated at Calgary, Alberta, this 24th day of February, 1995.

Yours truly,

*Deloitte & Touche*

Chartered Accountants

British Columbia Securities Commission  
Alberta Securities Commission Agency  
Saskatchewan Securities Commission  
The Manitoba Securities Commission  
Ontario Securities Commission  
Commission Des Valeurs Mobilières Du Québec  
New Brunswick Minister of Justice, Office of the Administrator  
Nova Scotia Securities Commission  
Prince Edward Island Director of Corporations, Department of Justice  
Newfoundland Department of Justice, Securities Division  
Government of Northwest Territories, Securities Division  
Government of Yukon, Department of Justice and Corporate Affairs

February 28, 1995

Dear Sirs

**Norcen Energy Resources Limited**

To the best of our knowledge, we hereby agree with the information contained in the Notice of Change of Auditors dated February 22, 1995 of Norcen Energy Resources Limited.

Yours very truly

*KPMG, Peat Marwick Thorne*

Chartered Accountants  
Calgary, Canada

pg 02LTR02133 SecComm notice  
Enclosure: as noted above

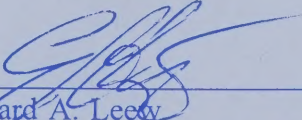
cc  
Norcen Energy Resources Limited  
Deloitte & Touche, Chartered Accountants

TO: The Securities Administrators in  
each of the provinces of Canada

Re: CHANGE OF AUDITOR

The undersigned hereby confirms that the Audit Committee of Norcen Energy Resources Limited has reviewed the Notice of Change of Auditor dated February 22, 1995 and the response letters from KPMG Peat Marwick Thorne, Chartered Accountants and Deloitte & Touche, Chartered Accountants.

DATED this 14th day of March, 1995.

  
\_\_\_\_\_  
Edward A. Leech  
Vice-President, Legal and Secretary

## **Schedule "B"**

### **TEXT OF SPECIAL RESOLUTION REGARDING THE ELIMINATION OF ANY RESTRICTIONS ON BUSINESS**

#### **BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:**

1. The Articles of the Corporation be amended to remove the restrictions on business presently contained therein.
2. The Corporation is hereby authorized to apply for a certificate of amendment under the Canada Business Corporations Act amending its Articles as set forth above and any one director or officer of the Corporation is hereby authorized to execute and deliver on behalf of the Corporation all such notices, documents and instruments, including articles of amendment in prescribed form, and to do all such other acts and things as may be considered necessary or desirable to carry out the foregoing.
3. Notwithstanding the foregoing, the directors of the Corporation are authorized to revoke this special resolution without further approval of the shareholders at any time before it is acted on, in their sole discretion.